

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****The Reporting Entity**

The reporting entity "King County" consists of King County Government as the primary government; the Harborview Medical Center (HMC) and the Washington State Major League Baseball Stadium Public Facilities District (PFD) as "discretely presented" component units; and the Flood Control Zone Districts as "blended" component units. Most funds in this report pertain to the entity King County Government or component units. Certain Agency Funds, referred to as Agency Funds – Special Districts/Other Governments, pertain to the County's custodianship of assets belonging to independent governments and special districts. Under the County's Home Rule Charter, the King County Executive is the *ex officio* treasurer of all special districts of King County, but not of the cities and towns. Pursuant to County ordinance, the Manager of the Finance and Business Operations Division is responsible for the duties of the comptroller and treasurer. Monies received from or for the special districts are deposited in a central bank account. The Manager of the Finance and Business Operations Division invests or disburses money pursuant to the instructions of the respective special districts.

**Component Units**

The Harborview Medical Center (HMC), a 349-bed hospital with extensive ambulatory services, is located in Seattle, Washington. HMC is managed by the University of Washington (UW). The HMC Board of Trustees is appointed by the County Executive. The County Manager of the Finance and Business Operations Division is the treasurer of HMC. HMC staff members are employees of UW. The management contract between the HMC Board of Trustees and the UW Board of Regents recognizes the Trustees' desire to maintain HMC as a means of meeting the King County Government's obligation to provide the community with a resource for health services, and UW's desire that HMC be maintained as a continuing resource for education, training, and research. The general conditions of the management contract specify that King County retains title to all real and personal property acquired for King County with HMC capital or operating funds. The Trustees determine major institutional policies and retain control of programs and fiscal matters. The Trustees agree to secure UW's recommendations on any changes to the above. The Trustees are accountable to the public and King County Government for all financial aspects of HMC's operation and agree to maintain a fiscal policy that keeps the operating program and expenditures of HMC within the limits of operating income.

HMC is a component unit of the County for the following reasons: (1) it is a separate legal entity having its own corporate powers; (2) the County Executive appoints HMC's Board of Trustees, who may be removed only for statutorily defined causes and subject to legal appeal; and (3) although the County cannot impose its will on HMC, the unit creates a financial burden on the County because the County is responsible for the issuance and debt service of all general obligation bonds for HMC capital improvements. HMC's financial presentation is on the discrete component unit basis because the County and HMC's governing bodies are not substantively the same, and HMC does not provide services solely to King County. HMC financial data is as of their fiscal year-end, June 30, 2001, rather than December 31, 2001.

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Although the primary classification of HMC in this report is that of a component unit, the County is the issuer of HMC's general obligation bonds. Therefore, Note 10, "Long-term Debt," reports on all the general obligation bonds issued by the County as of December 31, 2001, including bonds reported by HMC as a component unit as of June 30, 2001.

HMC hires independent auditors other than the County's independent auditors and prepares its own audited financial statements. These statements may be obtained from the Finance Section of the Harborview Medical Center, 325 9th Ave., Seattle, Washington, 98104.

The Washington State Major League Baseball Stadium Public Facilities District (PFD) is the agency created by the Metropolitan King County Council on October 24, 1995, as authorized under *Revised Code of Washington (RCW)*, Chapter 36.100. The PFD operates as a municipal corporation of the State of Washington and was formed to site, design, build, and operate the major league baseball park. The PFD is governed by a seven-member board of directors, four of whom are appointed by the County Executive. The other three are appointed by the Governor of the State of Washington. The County, as the *ex officio* treasurer for the PFD, maintains several funds to account for construction, debt redemption, and special revenue collection. Construction was financed by a 1997 general obligation bond issue and contributions from the Baseball Club of Seattle. Debt service on the bonds is supported by sales and use taxes, sales and use tax credits, special lottery proceeds, special license plate sales, and admissions tax. The stadium was completed during 1999 and is an asset of the PFD.

The PFD is a component unit of the County for the following reasons: (1) it is a separate legal entity; (2) a majority of its board of directors (4 of 7) is appointed by the County Executive; and (3) there exists an indirect financial burden relationship between the PFD and the County since the County issued the bonds for the construction of the stadium, thereby making the County ultimately responsible for the debt. The PFD's financial statements are discretely presented because the two governing boards are not substantively the same and the PFD does not provide services solely to King County government.

The PFD reports on a fiscal year-end consistent with the King County primary government. It issues its own financial statements as audited by the State Auditor's Office. These statements may be obtained from the Public Facilities District, 110 South Atlantic Street, Seattle, Washington, 98134.

There are four Flood Control Zone Districts (FCZD) in King County that are administered by the Surface Water Management Division of the Department of Natural Resources. Only the Green River District is currently active. FCZD were created to manage surface water runoff within district boundaries. The King County Council members are *ex officio* members of the Board of Supervisors for each FCZD and the County Engineer serves as the FCZD engineer. An FCZD can assist in the construction and maintenance of dikes, drainage systems, dams and reservoirs as well as widening, straightening, and relocating water courses.

FCZD are a component unit of the County for the following reasons: (1) they are legally separate entities established as quasi-municipal corporations and independent taxing authorities; (2) King County, in effect, appoints the voting majority of the FCZD board because the County Council members are the *ex officio* supervisors of each FCZD; and, (3) the County

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can impose its will on FCZD. FCZD financial presentation is on a blended basis because the two governing boards are substantively the same. They are classified as Special Revenue funds and do not issue independently audited financial statements.

**Joint Venture**

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a non-profit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act of 1998. It functions as the Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected official (CEO) of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because the CEO is potentially liable to grantors for disallowed costs. If expenditure of funds is disallowed by a grantor agency, the WDC can recover the funds from (in order): 1) the agency creating the liability; 2) the insurance carrier; 3) future program years; and 4) as a final recourse, from King County and the City of Seattle, each being responsible for one-half of the disallowed amount. As of December 31, 2001, there are no outstanding program eligibility issues that might lead to a King County liability.

The WDC contracts with King County, which provides programs related to dislocated workers, welfare to work, and workforce centers. For the year 2001 WDC reimbursed King County approximately \$8 million in eligible program costs.

The WDC issues independent financial statements that may be obtained from the Workforce Development Council located at 2003 Western Avenue, Suite 250, Seattle, WA 98121-2162.

**Related Organizations**

The King County Library System (KCLS) and the Library Capital Facility District (LCFD) are legally separate entities, though both organizations are related to King County. The County Council appoints a majority of the board of the KCLS and selected Council members make up the 3-member board of the LCFD. There is, however, no evidence that the Council can influence the programs and activities of either organization or that either organization creates a financial benefit or burden to the County. For these reasons, the KCLS and LCFD are related organizations. The County serves as the treasurer for these special districts, providing services such as tax collection and warrant issuance. Due to this fiduciary relationship, these districts are routinely reported as agency funds of the County.

**Fund Accounting**

The accounts of the County are organized on the basis of funds, account groups, and component units, each considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for in, individual funds based upon the purposes for

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which they are to be spent and the means by which spending activities are controlled. In the financial statements of this report, the various funds are grouped into seven generic fund types and five broad fund categories as follows:

**Governmental Funds**

The governmental funds are accounted for under a spending measurement focus. Only current assets and current liabilities are generally reported on their balance sheets, and their operating statements present financial flow information of revenues and expenditures.

The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for revenues that are to be utilized for special and specific purposes, to account for the expenditures incurred for the performance of specific activities, or both.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Funds are used to account for all resources to be used for the acquisition or development of capital improvements (other than those financed by proprietary funds).

**Proprietary Funds**

Proprietary funds are accounted for under a cost-of-services or “capital maintenance” measurement focus. All assets and all liabilities, whether current or non-current, are reported on their balance sheets, and their operating statements present revenue and expense capital maintenance information.

Enterprise Funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County, or to other governments, on a cost-reimbursement basis.

In accordance with the Governmental Accounting Standards Board’s (GASB) *Codification of Governmental Accounting and Financial Reporting Standards (Codification)*, Section P80.104, the County has elected to follow all Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, including the Financial Accounting Standards Board (FASB) Statement No. 71, *Accounting for the Effects of Certain Types of*

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*Regulation*, unless those pronouncements conflict with or contradict GASB pronouncements. The County has elected not to follow FASB pronouncements issued subsequent to that date.

**Fiduciary Funds**

Investment Trust Funds are used to report investment activity conducted by King County on behalf of legally separate entities such as special districts and public authorities that are not part of the County's reporting entity. The basis of accounting is full accrual and the measurement focus is economic resources.

Agency Funds are used to account for assets held by the County as an agent for other County funds, private organizations, individuals, and other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. There are two major classifications of Agency Funds: those used with the operations of County government, and those which account for cash received and disbursed in the County's capacity as *ex officio* treasurer or collection agent for special districts and other governments.

**Account Groups**

The General Fixed Assets Account Group and General Long-term Debt Account Group are not "funds." They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group rather than in governmental funds. Fixed assets used in proprietary fund type operations are accounted for in the proprietary funds. Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds. Long-term liabilities to be paid from proprietary fund resources are accounted for in the proprietary funds.

**Component Units**

The component unit Flood Control Zone Districts (FCZD) are blended in the primary government financial statements in the Special Revenue Fund type.

The component units Harborview Medical Center (HMC) and Washington State Major League Baseball Stadium Public Facilities District (PFD) are included in the financial statements by the method known as "discrete presentation." Discrete presentation entails reporting financial data in columns separate from the financial data of the primary government.

**Total Columns on Combined Statements**

The total column "primary government" on the combined statements is captioned "Memo Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or cash flows in conformity with

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generally accepted accounting principles. Such data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**Bases of Accounting**

King County uses the modified accrual basis of accounting for its Governmental and Agency fund types. They are the General, Special Revenue, Debt Service, Capital Projects, and Agency Funds. Revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period. Those revenues susceptible to accrual are intergovernmental revenues, fines and forfeits, payments for interfund services, building permits, and certain charges for services. Expenditures and other governmental fund financial resource transfers are recognized when the related fund liability is incurred, with the exception of interest on long-term debt, which is recognized when due.

King County uses the accrual basis of accounting for its Enterprise, Internal Service, and Investment Trust Funds. Expenses are recorded at the time liabilities are incurred and revenues are recorded when earned. Unbilled service receivables are recorded at year-end.

**Terminology - General Revenues and General Governmental Expenditures**

General revenues and general governmental expenditures used in this report are total revenues and expenditures for three governmental fund types: the General Fund, Special Revenue Funds, and the Debt Service Funds. The revenues and expenditures for all other fund types are excluded from these amounts.

**Terminology - Expenditure Functions and Characters**

The following is a description of each function reported by the County and a list of County operations whose expenditures are recorded under those functions:

**General Government Services** - A class of services provided by the legislative and administrative branches of the government entity for the benefit of the public or governmental body as a whole. This function includes the County Council, County Executive, Budget and Strategic Planning, Information and Administrative Services, Records and Elections, Human Resource Management, and Assessments.

**Law, Safety and Justice** - A class of services essential to the safety of the public including expenditures for law enforcement, detention and/or correction, judicial operations, protective inspections, emergency services, and juvenile services. This function includes the Sheriff's Office, Prosecuting Attorney, Superior Court, District Court, Public Defense, Judicial Administration, Adult and Juvenile Detention, and Emergency Medical Services.

**Physical Environment** - A class of services provided to achieve a satisfactory living environment for the community and the individual. This function includes Natural Resources, River Improvement, Animal Control, Surface Water Management, and River and Flood Control Construction.

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Transportation - A class of services provided by the governmental entity for the safe and adequate flow of vehicles and pedestrians that includes expenditures for road and street construction, maintenance, general administration, and transportation facilities and systems. This function includes County Road, Arterial Highway Development, Renton Maintenance Facilities Construction, and County Road Construction.

Economic Environment - A class of services provided for the development of, and improvement in, the welfare of the community and individual that includes expenditures for employment opportunity and development, veterans' services, childcare services, and aging and handicapped services. This function includes Veterans' Relief, Youth Employment Programs, Office of Aging, Women's Programs, Development and Environmental Services, and Planning and Community Development.

Mental and Physical Health - A class of services provided for the care, treatment and control of mental and physical illnesses that includes expenditures for hospitals, public health, inquests, community mental health, drug abuse, alcoholism treatment, and developmental disabilities. This function includes Medical Examiner, Developmental Disabilities, Mental Health, Alcohol and Substance Abuse Services, Public Health Pooling, and Cedar Hills Construction.

Culture and Recreation - A class of services provided to increase the individual's understanding and enjoyment including expenditures for education, libraries, community events, participant recreation, park facilities, and cultural and recreational facilities. This function includes Parks, Arts Commission, Cooperative Extension Service, and various Park Capital Project Funds.

Debt Service - A character of expenditure that accounts for the redemption of general long-term debt principal and interest and other debt service costs in the General, Special Revenue, Debt Service, and Capital Projects Funds and payments to escrow agents other than refunding bond proceeds.

Capital Outlay - A character of expenditure that accounts for expenditures related to capital projects and expenditures for fixed assets acquired by outright purchase and by capital lease financing agreements which will be capitalized in the General Fixed Asset Account Group.

**Terminology - Deferred Charges**

The Public Transportation and Water Quality enterprises defer expenditures for debt issuance, which are amortized over the life of the respective bond issues. In accordance with FASB Statement No. 71, the Water Quality Enterprise defers environmental remediation costs, which are amortized over 40 years. The Water Quality Enterprise is a regulated utility per FASB 71 because rates, which are designed to recover the cost of providing services, are set by the County Council per *RCW* 35.58.200(4) and *RCW* 36.56.010. Both the Water Quality and Public Transportation Enterprise defer refunding losses and bond discounts which are reported under Long-term liabilities.

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**Terminology - Deferred Revenues**

Deferred revenues include: (1) amounts collected before revenue recognition criteria are met, such as Deferred parks program revenue and building and land development permit fees; and (2) receivables that, under the modified accrual basis of accounting, are measurable but not yet available, such as Delinquent property taxes receivable, Abatements receivable, and Special assessments receivable.

**Terminology - Combined Balance Sheet Account Groupings**

Certain accounts are grouped on the combined balance sheet.

- The asset account *Other receivables, net* combines Abatements receivable; Assessments receivable current, delinquent, and deferred; Accrued interest/penalty receivable – delinquent assessments; Interest receivable; and Notes/contracts receivable.
- The asset account *Deferred charges* combines Deferred charges – environmental remediation costs and Deferred charges – other.
- The asset account *Other restricted assets – construction* combines Accounts receivable; Assessments receivable; Interest receivable; Due from other governments; Property held for future use; and Deferred financing costs, net.
- The fixed asset account *Furniture, machinery and equipment* combines Furniture, machinery and equipment; Rental equipment; Data processing equipment; and Telecommunications equipment.
- The contra account *Accumulated depreciation* combines Accumulated depreciation – Buildings, Accumulated depreciation – Improvements other than buildings, and Accumulated depreciation – Furniture, machinery and equipment.
- The liability *Accounts payable* includes Vouchers payable, Warrants payable, Due to other governments, Interest payable, Taxes payable, Retainage payable, and Arbitrage earnings payable.
- The liability *Custodial accounts* combines Custodial accounts and Due to special districts/other governments.
- The liability account *Other liabilities payable from restricted assets* combines Accounts payable, Estimated claims settlements, Due to other governments, Interest payable, Wages payable, Assessments payable, and Arbitrage earnings payable.
- The liability account *Other long-term liabilities* combines State revolving loan payable, Environmental and property remediation costs, Estimated claims settlements, Assessments payable, and Customer deposits.

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## Receivables

In Current Assets, receivables reported net of estimated uncollectible amounts as of year-end are shown below at gross with the related estimated uncollectible accounts.

	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
Receivables					
Accounts receivable	\$ 35,303,542	\$ 27,112,181	\$ 529,384	\$ 35,049,889	\$ 1,587,851
Estimated uncollectible accounts receivable	(30,374,267)	(2,635,367)	(32,984)	(258,286)	(14,717)
Accounts receivable, net	<u>\$ 4,929,275</u>	<u>\$ 24,476,814</u>	<u>\$ 496,400</u>	<u>\$ 34,791,603</u>	<u>\$ 1,573,134</u>
Abatements receivable	\$ -	\$ 316,442	\$ -	\$ -	\$ -
Estimated uncollectible abatements receivable	-	(212,016)	-	-	-
Other receivables	12,902,645	9,146,327	123,641	1,682,741	305
Other receivables, net	<u>\$ 12,902,645</u>	<u>\$ 9,250,753</u>	<u>\$ 123,641</u>	<u>\$ 1,682,741</u>	<u>\$ 305</u>
Due from other governments	\$ 25,366,891	\$ 40,059,035	\$ 7,047,351	\$ 38,184,906	\$ 496,827
Estimated uncollectible due from other governments	(280,858)	-	-	-	(13,551)
Due from other governments, net	<u>\$ 25,086,033</u>	<u>\$ 40,059,035</u>	<u>\$ 7,047,351</u>	<u>\$ 38,184,906</u>	<u>\$ 483,276</u>

**Cash and Cash Equivalents**

Cash and cash equivalents consists of the following accounts: Cash and pooled investments, Petty cash/change funds, Cash with escrow agent, and Cash held in trust. Investments held by the Water Quality Enterprise in the form of overnight U.S. Treasuries are also reported as Cash and cash equivalents.

Most county funds, special districts, and component units participate in an external investment pool maintained by the King County Treasury Operations Section. (See Note 3, "Deposits with Financial Institutions, Investment and Reverse Repurchase Agreements" — External Investment Pool.) The investment pool consists of internal and external portions. For investment pool participants, the pool functions essentially as a demand deposit account where participants receive an allocation of their proportionate share of pooled earnings. Each fund's equity share of the internal portion of the pool's net assets is reported on the balance sheet as Cash and cash equivalents and reflects the change in fair value of the corresponding investment securities. Included in the internal portion of the pool is the investment of short-term cash surpluses not otherwise invested by individual funds. The interest earnings related to this

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investment of short-term cash surpluses are allocated to the General Fund in accordance with legal requirements and are used in financing general County operations.

**Investments**

In addition to pooled investments described under Cash and Cash Equivalents, King County holds other investments in qualified public depositories for County government and special districts for which, either by Washington state law or by contract, King County is the custodian. Monies are invested as directed by the governing authority for the fund or agency and proceeds are returned to the investing fund.

Investments purchased for individual funds, regardless of length of maturity, are reported as Investments, except for certain Water Quality Enterprise overnight securities that are considered Cash and Cash Equivalents. Investments attributed to both the external portion of the investment pool and investments in individual investment accounts are classified as Investments in separate investment trust funds. Participant funds in the external portion of the investment pool report their equity share of the net assets in the pool as "Assets held in investment trust – pool." Special district funds with individual investment accounts report their portion of net assets as "Assets held in investment trust – individual accounts." Investments are reported at fair value in compliance with the GASB's *Codification*, Section 150.105, which provides for reporting investments of governmental entities using fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. (See Note 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements.")

**Receivables**

Amounts due from private individuals, organizations, or other governments are recorded at year-end. These amounts include charges for services rendered by the County or intergovernmental grants. All unbilled service receivables are recorded at year-end.

Receivables are reviewed at year-end to establish or update the provisions for estimated uncollectible receivables. These provisions are estimated based on an analysis of an aging of the year-end Accounts receivable balance and/or the historical rate of uncollectibility.

Taxes Receivable - Property taxes levied for the current year are recorded on the balance sheet as Taxes receivable and Deferred revenues at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time the balance sheet accounts, Taxes receivable and Deferred revenues are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end, all uncollected property taxes are reported on the balance sheet as Taxes receivable-delinquent and Deferred revenues.

Abatements Receivable - In the Development and Environmental Services Fund, a Special Revenue Fund, the Abatements receivable account records the unpaid civil penalties and abatement costs due the County from liens filed by the Code Enforcement Section on property within the County. Deferred revenue is recorded for the abatements receivable and

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revenue is recognized when payment is made because liens may not be paid until the property is sold, which can be several years.

Assessments Receivable - In the governmental funds, unpaid assessments are reported in three accounts: Current, Delinquent and Deferred. Current assessments are those due within one year, Delinquent assessments are past due, and Deferred assessments are due beyond one year. Revenues from the assessments are recognized as they become current; that is, both measurable and available to finance expenditures of the current period.

**Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "Due from other funds" or "Due to other funds" on the balance sheet. Short-term interfund loans are classified as "Interfund short-term loans receivable/payable." At year-end, all interfund receivables and payables and the associated revenues and expenditures/expenses are recorded. (See Note 11, "Interfund Account Balances.")

**Intra-component Unit Receivables/Payables**

For the Component Unit, Harborview Medical Center (HMC), restricted assets are segregated into the Construction Fund, Special Purpose Fund, and the board-designated Operating Fund and Plan Fund. Receivables/payables between restricted and unrestricted funds are not netted, but reported as Due to/Due from component unit.

**Advances to Other Funds**

Noncurrent portions of long-term interfund loan receivables are reported as Advances. In governmental funds they are offset equally by a fund balance reserve account that indicates they do not constitute expendable available financial resources and are not available for appropriation.

**Inventories**

Inventories of supplies are held by the following funds or divisions. The method of valuing each ending inventory is also noted:

Those funds with inventories using the first-in, first-out valuation method, approximated by using latest invoice, include: Solid Waste Operating, King County International Airport Operating, Construction and Facilities Management, Alcoholism Services, Public Health Pooling Fund, and the General Fund (Parks Division, Adult Detention and Department of Youth Services). The Motor Pool Equipment Rental, Public Works Equipment Rental, Transit Nonrevenue Vehicle Equipment Rental and Wastewater Equipment Rental funds use the moving average valuation method.

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The Water Quality Operating and Public Transportation Operating Funds use the average cost valuation method. The Public Works Equipment Rental Fund uses the average historical costs divided by the number of units purchased at various historical costs valuation method.

The last physical count of these inventories was as of December 2001, except for the inventories of the Public Transportation and Water Quality Operating Funds, which use cycle counting.

Governmental fund type inventories are accounted for under the purchase method in the General Fund and under the consumption method in the Special Revenue Funds. Under the purchase method, expenditures are recorded at the time the material and supplies are purchased. Under the consumption method, an inventory asset is recorded when the materials and supplies are purchased, and the expenditure is recognized as the inventories are used. Under both methods, inventories are offset by a fund balance reserve account in the financial statements.

**Prepayments**

Payments made to vendors for services that will benefit periods beyond December 31, 2001, (or June 30, 2001, for Harborview Medical Center), are recorded as prepaid items.

**Restricted Assets and Related Liabilities**

Restricted assets include operating reserves for landfill post-closure costs and reserves required by bond covenants. Restricted assets also include resources to be used for construction, and debt service and bond reserves required by bond covenants. The related liabilities are reported in the Liabilities payable from restricted assets section of the balance sheet.

For the Component Unit – Harborview Medical Center, restricted assets includes the assets of HMC's Construction Fund, Special Purpose Fund, and all board-designated assets in the Operating and Plant Funds.

**Fixed Assets**

Fixed assets include fee simple Land; Farmland development rights; Buildings; Improvements other than buildings; and Furniture, machinery and equipment. Furniture, machinery and equipment includes items with a cost greater than or equal to \$1,000 for the King County primary government and \$500 for the Component Units – Harborview Medical Center and the Washington State Major League Baseball Stadium Public Facilities District. The General Fixed Assets Account Group does not include capital expenditures for roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, playfields, or rights-of-way and easements, with the exception of farmland development rights purchased under the Farmland Preservation Program of King County. The County no longer reports Solid Waste Enterprise landfill closure and post-closure equipment and facilities costs as fixed assets. Instead, the liability for landfill post-closure care has been reduced to the extent of these costs.

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Fixed assets are valued at historical cost or estimated historical cost where actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Interest on interim financing during the construction period is capitalized. Expenditures for maintenance and repairs that do not add to the value of the assets or materially extend their lives are expensed as incurred. Expenditures for repairs and upgrades that materially add to the value or life of an asset are capitalized and, if in an Enterprise or Internal Service Fund, a new depreciation schedule is established.

General fixed assets are not depreciated. In the Enterprise and Internal Service Funds, provision is made for the depreciation of fixed assets over the estimated useful lives of the depreciable assets using the straight-line method. In the Water Quality and Public Transportation Enterprises, depreciation expense related to assets previously acquired through contribution from third parties is closed to the equity account, Contributions, rather than Retained Earnings.

Buildings, structures, and their components have been depreciated over their estimated useful lives in Enterprise and Internal Service Funds as presented below:

<u>DESCRIPTION</u>	<u>DEPRECIATION METHOD</u>	<u>ESTIMATED USEFUL LIFE</u>
Buildings - constructed	Straight-line	40 to 60 years
Buildings, transfer stations, shops, scale offices, etc.	Straight-line	10 to 30 years

Improvements other than buildings in the Enterprise and Internal Service Funds have been depreciated over their estimated useful lives of 10 to 50 years, using the straight-line method. In the Public Transportation Enterprise, the transit downtown tunnel is being depreciated over 50 years. Sewer lines in the Water Quality Enterprise are being depreciated over 50 years.

Furniture, machinery and equipment are given various lives of 3 to 20 years, depending upon their classification:

<u>DESCRIPTION</u>	<u>DEPRECIATION METHOD</u>	<u>ESTIMATED USEFUL LIFE</u>
Data processing equipment	Straight-line	3 to 10 years
Telecommunication equipment	Straight-line	6 to 10 years
Automobiles - cars, vans, etc.	Straight-line	5 years
Automobiles – trucks	Straight-line	6 to 8 years
Buses	Straight-line	12 years
Heavy equipment	Straight-line	7 to 15 years (depending on use)
Medical equipment	Straight-line	3 to 20 years
Shop equipment	Straight-line	5 to 10 years
Office equipment	Straight-line	3 to 10 years

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 1 – CONTINUED****Long-term Debt and Debt Service Funds**

During 2001 the servicing of long-term debt was accomplished through several funds as follows:

<u>DEBT</u>	<u>SERVICED BY</u>
1. General long-term debt	
(a) General obligation debt	
(i) Limited G. O. bonds	Limited G. O. Bond Redemption Fund
(ii) Unlimited G. O. bonds	Unlimited G. O. Bond Redemption Fund
(iii) Stadium G. O. bonds	Stadium G. O. Bond Redemption Fund
(iv) Capital leases	Various Governmental Funds
(b) Special assessment general LTD	RID Special Assessment Debt Redemption Fund
2. Proprietary type long-term debt	
(i) Limited G. O. bonds	Airport, Solid Waste, Water Quality, Public Transportation Enterprises and Construction and Facilities Management, and Information and Telecommunications Services Funds
(ii) Capital leases	Public Transportation Enterprise and Information and Telecommunications Services Funds
(iii) Revenue bonds	King County Water Quality Enterprise
(iv) State loans	King County Water Quality Enterprise

The specific bond issues composing each type of debt are further clarified in the schedule of long-term debt presented in Note 10, "Long-term Debt."

**Bond Premium/Discount/Issuance Costs**

In the Water Quality and Public Transportation Enterprises, bond premiums, discounts and issue costs are deferred and amortized over the life of the bonds. Other funds account for these costs as expenditures/expenses in the current period because they are not material.

**Rebatable Arbitrage**

Arbitrage occurs when the County invests funds borrowed at tax-exempt rates of interest in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government. The County recognizes this liability, Arbitrage earnings payable, by reducing investment interest revenue. At the end of 2001 arbitrage excess earnings liabilities were \$2,810,365 in Capital Project Funds; \$1,102 in the King County International Airport Enterprise; \$3,337 in the Stadium Enterprise; and \$46,922 in the Water Quality Enterprise.

**Compensated Absences Payable**

Eligible King County employees earn 12 days of sick leave and 10 to 30 days of vacation per year, depending on the employee's length of service and other factors. An unlimited amount of sick leave and a maximum of 60 days of vacation may be accrued. An employee leaving the employ of King County is entitled to be paid for unused vacation leave and, if retiring as a

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 1 – CONTINUED**

result of length of service or terminating by reason of death, for 35 percent of the value of unused sick leave. For reporting purposes, 35 percent of the sick leave liability of employees over 50 years of age or with 20 or more years of service with King County is subject to accrual. A liability is accrued for estimated excess compensation liabilities to the Washington State Department of Retirement Systems based on employee's accrued vacation and sick leave. An excess compensation liability is incurred when any employee whose retirement benefits are based in part on excess compensation receives a termination or severance payment defined by the State as excess compensation. This includes, but is not limited to, a cashout of unused annual leave in excess of 240 hours and a cashout of any other form of leave.

In the governmental funds (except for Youth Employment Programs), the Compensated absences payable would not normally be liquidated with expendable available financial resources. The full amount of the compensated absences liability is reported in the General Long-term Debt Account Group.

In the Youth Employment Programs Fund, the compensated absences liability (except for the excess compensation liability, which is recorded in the General Long-term Debt Account Group) is recognized in the period in which it is earned.

The proprietary funds follow the GASB's *Codification*, Section C60, and recognize a long-term liability for compensated absences in the accounting period in which it is earned.

**Fund Equity**

Contributed capital is recorded in proprietary funds that in previous years have received capital grants or contributions from customers, other governments, or other funds. Reserves represent those portions of fund equity not appropriable for expenditure or that are legally segregated for specific future use. Designated fund balances represent tentative plans for future use of financial resources. For a complete description of all reserves and designations, see Note 12, "Reserves, Designations, and Changes in Equity."

**Changes in Accounting Policies and Principles**

Effective January 1, 2001, King County has implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement defines nonexchange transactions involving financial or capital resources, and addresses the timing of recognition of revenue resulting in these transactions. In accordance with the statement, the affected funds, Proprietary Funds and Component Units, have recognized nonexchange transactions, including receipt of capital grant and other capital contributions, as nonoperating revenue or expense.

**Component Units – Summary of Significant Accounting Policies****Harborview Medical Center (HMC)**

Harborview Medical Center maintains its own distinct set of accounting records. It is required to maintain its financial records on a fund accounting basis in conformity with restrictions or

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 1 – CONTINUED**

designations imposed by the State municipal corporation laws, King County ordinances, donors, and the Board of Trustees.

HMC's accounts are organized into general and restricted funds. General funds include the Operating Fund and Plant Fund; restricted funds include the Construction Fund and the Special Purpose Funds.

- Operating Fund - accounts for the operating assets and liabilities and those operating revenues and expenses that are not funded by restricted sources.
- Plant Fund - accounts for funds designated by the Board of Trustees for buildings, renovations, and equipment purchases.
- Construction Fund - consists of monies from the 1977 General Obligation Bonds, the 1988 General Obligation Bonds, the 1993 General Obligation Bonds, the 1998 Revenue Bonds, the 1999 General Obligation Bonds, and the 2000 General Obligation Bonds, which are restricted for capital construction purposes.
- Special Purpose Fund - accounts for restricted donations, gifts and bequests received from outside sources for specific purposes.

The Component Unit – Harborview Medical Center balance sheet reflects HMC's financial position at June 30, 2001, as measured by assets, liabilities and equity of all funds (general and restricted). The statement of revenues, expenses, and changes in fund equity reports the results of operations for all funds, general and restricted. Activity in the restricted funds is reported as non-operating revenues or expenditures. Equity in the restricted funds is classified as reserved retained earnings. The cash flow statement is presented for all funds.

HMC's fixed assets are stated at cost. Improvements and replacements of buildings and equipment are capitalized; maintenance and repairs are expensed. Depreciation is taken on buildings, improvements, and equipment using the straight-line method. Upon disposal, fixed assets and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is recorded.

HMC, as an instrumentality of the State of Washington, is not subject to Federal income taxes under Section 115 of the Internal Revenue Code unless unrelated business income is generated during the year.

**Washington State Major League Baseball Stadium Public Facilities District (PFD)**

The PFD uses the accrual basis of accounting. Expenses are recorded at the time liabilities are incurred and revenues are recorded when earned.

Cash and cash equivalents consists of cash and pooled investments managed by the King County Treasury Operations Section. The King County Treasury Operations Section Manager pools and invests all short-term cash surpluses not otherwise invested by individual funds of the County. Earnings from these pooled investments are allocated to the PFD based upon its share of equity in the pool.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 1 – CONTINUED**

Fixed assets include the Baseball Stadium and Furniture, Machinery and Equipment. The Baseball Stadium includes all costs associated with the development and construction of the ballpark project. Development costs include District staffing and related operating costs, architect and engineering fees, environmental consulting fees, and all other costs related to the development of the ballpark project.

Fixed assets are valued at historical cost. Only interest on interim financing during pre-construction and construction is capitalized.

Fixed assets are depreciated on a straight-line basis based on their estimated useful lives. Furniture and equipment are depreciated over three or five years. The Baseball Stadium is depreciated over 40 years from the date it was placed in service.

District employees earn 12 days of sick leave and 10 to 15 days of vacation per year, depending on the employee's length of service. An unlimited amount of sick leave may be accrued and two times the annual vacation allotment may be accrued. An employee leaving the employ of the PFD is entitled to be paid for all unused vacation. Unused sick leave is forfeited upon termination of employment. The accrual for unused vacation is included in wages payable in the accompanying balance sheet.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgeting Procedures**

On or before October 17 of each year, the County Executive presents the proposed budget for the following calendar year to the County Council for review. The budget includes all funds, revenues and reserves; is divided into programs, projects and objects of expense; and includes all supporting data deemed advisable by the County Executive or required by ordinance. The budget indicates for each program, project or object of expense: the actual expenditures of the preceding year; the appropriations for the current year and proposed appropriations for the next year; and includes the proposed capital improvement program for the next six years. The expenditures included in the budget for the ensuing year may not exceed the estimated revenues. The County Council holds public hearings and may add to, subtract from, or change appropriations for, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the Executive, or the revenue estimates must be changed by an affirmative vote of nine members of the County Council. The Executive has total veto and item veto power over appropriation ordinances approved by the County Council. Within 30 days after an appropriation ordinance has been vetoed or partially vetoed, the County Council may override the veto or partial veto by enacting the appropriation ordinance with a minimum of nine affirmative votes. The appropriation ordinance establishes the budgeted level of authorized expenditures that may not be legally exceeded without County Council approval of supplemental appropriation ordinances. Supplemental appropriation ordinances are reviewed by the Office of Budget and Strategic Planning and submitted to the County Executive. If approved for further consideration, they are transmitted to the County Council for its review and approval. If approved, they are implemented by the Office of Budget and Strategic Planning through

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 2 - CONTINUED**

budget revisions. Supplemental appropriations may be required for several reasons, including the award of Federal and State grants during the year, the release of contingency funds for expenditure, and funding for unanticipated program requirements. An additional factor that may cause supplemental appropriations is the Federal fiscal year, which does not coincide with the County fiscal year. As a result, additional appropriations are required for those funds that account for Federal programs such as the Developmental Disabilities Fund. For the fiscal year 2001 approximately 21 supplemental appropriation ordinances were approved increasing the level of appropriations in the operating funds by approximately \$285 million, or 1 percent of the \$2.76 billion appropriated for 2001.

During the last quarter of the fiscal year, the County Council, when requested by the County Executive, may adopt an ordinance to transfer appropriations between agencies of County government.

The County Executive, within the restrictions of any provisos in the appropriation ordinances, may establish and amend detailed line item budgets so long as the total budget for each appropriation unit does not exceed the budgeted level of authorized expenditures established by ordinance approved by the County Council.

**Bases of Budgeting**

With the exception of the reconciling items described in the Reconciliation of Budgetary Basis and GAAP Basis Statements and Schedules section of this note, King County uses the modified accrual basis of budgeting for the General Fund, and most Debt Service and Special Revenue Funds. Revenues are estimated on the basis of when they become susceptible to accrual, such as intergovernmental revenues where revenue estimates are matched with appropriations. Expenditures are budgeted based on liabilities expected to be incurred in the acquisition of goods and services. These are annual budgets, i.e., they are applicable to the current fiscal year.

Twenty-four Special Revenue Funds have an annual budget with budgeting concepts identical to the General Fund. Twenty-three of these funds are presented in the budget and actual schedules of this report. One of these funds, the Arts and Cultural Education Fund, was inactive in 2001.

Two funds within the Special Revenue Fund type do not have an annual basis of budgeting. They are the Community Development Block Grant Fund and the Miscellaneous Grants Fund. Budgets within these funds are on a multi-year basis with the budget for a particular program covering one or more fiscal years. Total revenues and expenditures for the program are budgeted at its inception and any unexpended balance at the end of the fiscal year is reappropriated to the next fiscal year.

The Flood Control Zone Districts Funds are not budgeted. These funds account for four flood control zone districts' activities in accordance with *Revised Code of Washington (RCW)*, Chapter 86.15.

The Lake Management District Fund is not budgeted. This fund accounts for Lake Management District special assessment activity in accordance with *RCW* Chapter 36.61.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 2 - CONTINUED**

The Road Improvement Districts Maintenance Fund is not budgeted. This fund reports the road district maintenance assessment activity in accordance with *RCW* Chapter 36.88.

The Treasurer's Operations and Maintenance Fund, pursuant to *RCW* Chapter 84.56.020, is not budgeted.

Three Debt Service Funds have an annual budget with budgeting concepts identical to the General Fund. These funds are presented in the budget and actual statements of this report. In the Limited General Obligation Bond Redemption Fund, revenues and expenditures related to proprietary type debt service payments are budgeted.

Two Debt Service Funds, the Road Improvement Districts Special Assessment Debt Redemption Fund and Road Improvement Guaranty Fund, are not budgeted. These funds report road improvement districts' special assessments revenues and debt service expenditures in accordance with *RCW* Chapter 36.88.

All funds in the Capital Projects Fund type, except the Road Improvement Districts Construction Fund, are controlled by multi-year budgets. However, capital budget appropriations are canceled at the end of the year, unless the County Executive submits to the County Council the report of the final year-end reconciliation of expenditures for all capital projects on or before March 1 of the year following the year of the appropriation, and each year thereafter in which the appropriation remains open.

The Road Improvement Districts Construction Fund is not budgeted. This fund reports capital improvement assessments construction activity in accordance with *RCW* Chapter 36.88.

The Enterprise and Internal Service Funds (with the exception of the Insurance Fund) are budgeted on the modified accrual basis rather than the accrual basis (the GAAP basis for proprietary funds). Appropriations are based on an estimate of expenditures expected to be incurred in the acquisition of goods and services during the fiscal year. Estimated revenues are based on the amount estimated to be earned and available during the fiscal year.

The Insurance Fund is budgeted on the modified accrual basis with one exception. Consistent with the intent of the County ordinance that delegates full claims settlement authority to the County Executive, the recognition of the portion of judgment and claim settlements that occurs and remains unpaid at the end of a fiscal year, and exceeds current year expenditure appropriations is deferred to the following year when the claim is paid. In 2001 no judgment and claim settlement recognition was deferred to a future period on the budgetary basis schedules due to insufficient appropriations in the current year.

The Trust and Agency Funds are not budgeted.

**Encumbrances**

Encumbrance accounting is used by King County for purchase orders, contracts, and other commitments for the expenditure of monies to reserve that portion of the applicable appropriation as an extension of formal budgetary integration. At the end of the year, open

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 2 - CONTINUED**

encumbrances are reported on the budget to actual statements/schedules of governmental and proprietary funds; the budget is then reestablished in the coming year without being reappropriated. Encumbrances outstanding at year-end are reported as a reserve of fund balance in governmental type funds.

Encumbrances outstanding as of December 31, 2001, are shown in the following schedule by fund type:

YEAR-END ENCUMBRANCES OUTSTANDING AS OF DECEMBER 31, 2001

General Fund	\$ 5,425,929
Special Revenue Funds	21,949,667
Capital Projects Funds	29,496,299
Enterprise Funds	4,028,832
Internal Service Funds	<u>2,197,003</u>
Total All Funds	<u>\$ 63,097,730</u>

**Reconciliation of Budgetary Basis and GAAP Basis Statements and Schedules for Governmental Funds**

In the General and budgeted Special Revenue and Debt Service Funds, the legally prescribed budgetary basis differs from the Generally Accepted Accounting Principles (GAAP) basis in 2001. For those statements and schedules in which budget comparisons are presented, the legally adopted budget is compared with actual data on the budgetary basis rather than the GAAP basis. All statements that do not have budget comparisons are prepared on the GAAP basis.

The following schedules reconcile the actual GAAP data to the budgetary basis data for the General, Special Revenue, and Debt Service Funds:

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

**NOTE 2 - CONTINUED**

GENERAL FUND  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 RECONCILIATION OF GAAP BASIS AND BUDGETARY BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2001

	TOTAL (GAAP BASIS)	ADJUSTMENT TO NON-GAAP BUDGETARY BASIS		TOTAL (BUDGETARY BASIS)
		ENCUMBRANCES	OTHER	
REVENUES				
Interest earnings	\$ 18,285,308	\$	\$ (1,257,359) (a)	\$ 17,027,949
Other revenues	467,268,237			467,268,237
TOTAL REVENUES	<u>485,553,545</u>		<u>(1,257,359)</u>	<u>484,296,186</u>
EXPENDITURES				
Current	444,697,943	4,858,241	-0-	449,556,184
Debt Service	-0-	-0-	-0-	-0-
Capital outlay	1,719,901	567,688	-0-	2,287,589
TOTAL EXPENDITURES	<u>446,417,844</u>	<u>5,425,929</u>	<u>-0-</u>	<u>451,843,773</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>39,135,701</u>	<u>(5,425,929)</u>	<u>(1,257,359)</u>	<u>32,452,413</u>
OTHER FINANCING SOURCES (USES)				
Disposition of fixed assets	61,133			61,133
Operating transfers in	463,557		7,214,909 (b)	7,678,466
Operating transfers out	(36,365,335)		(7,214,909) (b)	(43,580,244)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(35,840,645)</u>	<u>-0-</u>	<u>-0-</u>	<u>(35,840,645)</u>
ELIMINATE ENCUMBRANCES FROM THE BUDGETARY BASIS		5,425,929		5,425,929
ADJUSTMENT FROM BUDGETARY BASIS TO GAAP BASIS			<u>1,257,359</u>	<u>1,257,359</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES (GAAP BASIS)	3,295,056			3,295,056
FUND BALANCE - JANUARY 1, 2001 RESTATED	79,436,658			79,436,658
INCREASE IN RESERVE FOR INVENTORY	<u>11,583</u>			<u>11,583</u>
FUND BALANCE - DECEMBER 31, 2001	<u>\$ 82,743,297</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 82,743,297</u>

(a) Recognition of unrealized gains on investments revenue on a GAAP basis.

(b) Budgeted intrafund operating transfers of \$7,214,909.

# NOTES TO FINANCIAL STATEMENTS

## DECEMBER 31, 2001

### NOTE 2 - CONTINUED

SPECIAL REVENUE FUNDS  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
RECONCILIATION OF GAAP BASIS AND BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2001

	ALL FUNDS (GAAP BASIS)	ADJUSTMENT TO NON-GAAP BUDGETARY BASIS NON-BUDGETED FUNDS (GAAP BASIS)	ENCUMBRANCES	OTHER	TOTAL BUDGETED FUNDS (BUDGETARY BASIS)
REVENUES					
Taxes	\$ 126,476,228	\$ (795,355)	\$	\$	\$ 125,680,873
Licenses and permits	13,761,121				13,761,121
Intergovernmental revenues	297,221,175	(31,509,155)			265,712,020
Charges for services	110,891,159	(707,516)			110,183,643
Fines and forfeits	383,203				383,203
Interest earnings	6,533,752	(423,102)		(648,673) (a)	5,461,977
Miscellaneous revenues	6,506,086	(1,601,740)			4,904,346
TOTAL REVENUES	561,772,724	(35,036,868)		(648,673)	526,087,183
EXPENDITURES					
Current					
General government services	18,670,339	(1,379,119)			17,291,220
Law, safety and justice	74,882,064	(13,468,837)	2,609,226		64,022,453
Physical environment	35,242,798	(221)	2,424,221		37,666,798
Transportation	52,154,009	(683,272)	562,778		52,033,515
Economic environment	58,966,768	(17,788,310)	179,128	(43,183) (b)	41,314,403
Mental and physical health	299,069,153	(865,900)	898,910		299,102,163
Culture and recreation	6,133,921	(21,000)	3,512,672		9,625,593
Total Current	545,119,052	(34,206,659)	10,186,935	(43,183)	521,056,145
Debt service	197,915	(279)	18,153		215,789
Capital outlay					
Capital projects	7,225,295		709,999		7,935,294
Capitalized expenditures	5,745,557	(86,088)	2,261,651		7,921,120
Capitalized expenditures-capital leases	185,670			(185,670) (c)	
Total capital outlay	13,156,522	(86,088)	2,971,650	(185,670)	15,856,414
TOTAL EXPENDITURES	558,473,489	(34,293,026)	13,176,738	(228,853)	537,128,348
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	3,299,235	(743,842)	(13,176,738)	(419,820)	(11,041,165)
OTHER FINANCING SOURCES (USES)					
Proceeds of long-term debt - capital leases	185,670			(185,670) (c)	
Disposition of fixed assets	2,089,364				2,089,364
Operating transfers in	29,634,836				29,634,836
Operating transfers out	(35,879,557)	470,063			(35,409,494)
TOTAL OTHER FINANCING SOURCES (USES)	(3,969,687)	470,063	-0-	(185,670)	(3,685,294)
ELIMINATE ENCUMBRANCES FROM THE BUDGETARY BASIS			13,176,738		13,176,738
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(670,452)	(273,779)	-0-	(605,490)	(1,549,721)
ADJUSTMENT FROM BUDGETARY BASIS TO GAAP BASIS				605,490	605,490
FUND BALANCE - JANUARY 1, 2001	93,215,345	(2,305,829)			90,909,516
FUND BALANCE - DECEMBER 31, 2001	\$ 92,544,893	\$ (2,579,608)	\$ -0-	\$ -0-	\$ 89,965,285

(a) Recognition of unrealized gains on investments revenues on a GAAP basis.

(b) GAAP basis expenditures for vacation and sick leave accrual, \$43,183.

(c) Non-budgeted expenditures and other sources from the acquisition of fixed assets by capital lease.

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

**NOTE 2 - CONTINUED**

DEBT SERVICE FUNDS  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 RECONCILIATION OF GAAP BASIS AND BUDGETARY BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2001

	ALL FUNDS (GAAP BASIS)	ADJUSTMENT TO NON-GAAP BUDGETARY BASIS		TOTAL BUDGETED FUNDS (BUDGETARY BASIS)
		NON-BUDGETED FUNDS (GAAP BASIS)	OTHER	
REVENUES				
Taxes	\$ 103,976,445	\$	\$	\$ 103,976,445
Intergovernmental revenues	3,856,977		8,725,454 <sup>(a)</sup>	12,582,431
Charges for services	4,234,375			4,234,375
Interest earnings	1,411,437	(235,861)	(175,199) <sup>(b)</sup>	1,000,377
Miscellaneous revenues	172,103	(170,949)		1,154
TOTAL REVENUES	113,651,337	(406,810)	8,550,255	121,794,782
EXPENDITURES				
Debt service	117,518,342	(51,967)	63,709,933 <sup>(a)</sup>	181,176,308
TOTAL EXPENDITURES	117,518,342	(51,967)	63,709,933	181,176,308
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,867,005)	(354,843)	(55,159,678)	(59,381,526)
OTHER FINANCING SOURCES (USES)				
Disposition of fixed assets	10,083			10,083
Operating transfers in	8,863,910		54,984,479 <sup>(a)</sup>	63,848,389
TOTAL OTHER FINANCING SOURCES (USES)	8,873,993	-0-	54,984,479	63,858,472
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	5,006,988	(354,843)	(175,199)	4,476,946
ADJUSTMENT FROM BUDGETARY BASIS TO GAAP BASIS			175,199	175,199
FUND BALANCE - JANUARY 1, 2001	34,375,573	(2,963,989)		31,411,584
FUND BALANCE - DECEMBER 31, 2001	\$ 39,382,561	\$ (3,318,832)	\$ -0-	\$ 36,063,729

(a) Revenues and expenditures related to proprietary limited general obligation bonds which are budgeted, but are not reported on GAAP basis statements.

(b) Recognition of unrealized gains on investments revenue on a GAAP basis.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 2 - CONTINUED****Budgeted Level of Expenditures**

Appropriations are authorized by ordinance, generally at the fund level, with the exceptions of the General Fund and five Special Revenue Funds (the Community Development Block Grant, County Road, Criminal Justice, Developmental Disabilities, and Miscellaneous Grants Funds), which are appropriated at the department/division level, and Capital Projects Funds, which are appropriated at the project level.

These are the legal levels of budgetary control. Unless otherwise provided by the appropriation ordinances, all unexpended and unencumbered annual appropriations lapse at the end of the year. The schedules of revenues, expenditures, and changes in fund balances/retained earnings-budget (non-GAAP budgetary basis) and actual include variances at the function of expenditure level. These variances are presented for informational purposes only and, if unfavorable, do not constitute a legal violation. Administrative control is guided by the establishment of more detailed line item budgets.

**Undesignated Fund Balance and Retained Earnings Deficits**

Building Construction and Improvement – The deficit of \$10,836,855 is the result of using short-term bond anticipation notes to finance long-term capital projects. This short-term borrowing is scheduled to be replaced by general obligation bonds in 2004. The proceeds of the future bond issue will be recorded as Other Financing Sources in the capital projects fund thereby eliminating the fund balance deficit.

Building Repair and Replacement – The deficit of \$215,674 is the result of reserves for encumbrances exceeding the fund balance. Contributions from other funds in 2002 are expected to eliminate this deficit.

Community Development Block Grant Fund – The deficit of \$6,912,691 is the result of reserves for encumbrances exceeding the fund balance. Grant revenue in 2002 is expected to eliminate the deficit.

County Road Fund – The deficit fund balance of \$6,245,372 is the result of programmed sales of surplus property not meeting expectations. Programmed property sales were expected to generate \$8,000,000, while actual property sales were \$2,100,000, due to fewer property sales than expected. Proceeds from sales of the remaining properties in 2002 are expected to eliminate the deficit.

Employee Benefits Program Fund – The deficit of \$4,065,372 is the result of prior net losses of \$1,391,424 and \$4,219,630 during 1999 and 2000, respectively. The deficit is being addressed in subsequent years through rate setting.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 2 - CONTINUED**

Long-Term Leases Fund - The deficit of \$960,155 is the result of unreimbursed expenditures for various tenant improvements and earthquake repairs. The Property Services Section plans to recover the costs of tenant improvements over several years through increased monthly billings to benefiting agencies. Reimbursement from Federal Emergency Management Agency (FEMA) is expected to cover some portion of the earthquake repair costs.

Miscellaneous Grants Fund - The deficit of \$1,074,902 is the result of encumbrances exceeding the fund balance. Grant revenue in 2002 is expected to eliminate the deficit.

Park Facilities Rehabilitation Fund - The deficit of \$214,478 is the result of reserves for encumbrances exceeding the fund balance. Contributions from other funds in 2002 are expected to eliminate this deficit.

Parks, Recreation and Open Space Fund - The deficit of \$2,081,237 is the result of expenditures for land acquisition using short-term borrowing, with the expectation of reimbursement from a State grant. The State is currently reviewing the County's application for reimbursement.

Radio Communications Enterprise - The deficit of \$2,378,380 is the result of revenues not fully covering depreciation expense on radios and radio system infrastructure.

Road Improvement Districts Construction Fund - The deficit of \$56,177 is the result of using short-term debt to finance the various projects of road improvement districts. As the capital projects are completed, short-term debt is replaced by long-term bonds. The long-term bonds are recorded in the General Long-term Debt Account Group, thereby eliminating the deficit.

Safety and Workers' Compensation Fund - The deficit of \$4,222,570 is the result of losses in several years in the last ten years. The rates charged by the fund for workers' compensation are sufficient to meet current cash flow requirements but only fund a portion of its long-term liabilities.

Stadium Enterprise - The deficit of \$121,047,681 is primarily the result of increased depreciation expense. Effective January 1, 1997, the estimated useful lives of the Stadium Enterprise fixed assets were reduced to three years in anticipation of the March 2000 demolition of the Kingdome and subsequent construction of a new stadium by the Washington State Public Stadium Authority, a component unit of the State of Washington. The Retained Earnings deficit is more than offset by Contribution Equity of \$123,522,975.

Transfer of Development Credit Program Fund - The deficit of \$1,492,668 was the result of spending, using short-term borrowing, in anticipation of planned contributions from the Conservation Futures Levy fund.

Water Quality Enterprise - The cumulative net loss of the Water Quality Enterprise exceeded reserved retained earnings during the year ended December 31, 2001, resulting in a deficit in unreserved retained earnings of \$20,085,839. The Water Quality Enterprise is not currently budgeted to receive additional revenues or reduce costs to eliminate the deficit in unreserved retained earnings. This condition is the result of depreciation and amortization expense on assets, which have been primarily financed with long-term debt. Current and projected net

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 2 - CONTINUED**

operating revenues of the Water Quality Enterprise exceed amounts required by bond covenants and financial policies for current and future debt service.

**Expenditures in Excess of Amounts Legally Authorized**

Funds with Annual Budgets

All funds and departments/divisions with annual budgets completed the year within their legally authorized expenditures.

Funds with Multi-year Budgets

Twenty Capital Projects and Enterprise Funds with multi-year budgets have a total of 130 projects that have expenditures of \$8.3 million in excess of budget at year-end. These projects will be corrected during the capital projects reconciliation process or by additional appropriation in 2002.

**Public Transportation Enterprise Bond Covenants**

During 2001 the Public Transportation Enterprise complied with all covenants stipulated by its bond resolutions, except for providing audited 2000 financial statements within 120 days of year-end. The Enterprise had six months beyond the 120 days to rectify the situation. The statements and report were provided within the six-month period. In 2002 the Enterprise again has complied with all covenants, except for providing 2001 audited statements within 120 days of year-end. The 2001 financial statements will be completed within the six-month extension period.

**Water Quality Enterprise Bond Covenants**

During 2001 the Water Quality Enterprise complied with all covenants stipulated by its bond resolutions, except for providing audited 2000 financial statements and a consulting engineer's report within 120 days of year-end. The Enterprise had six months beyond the 120 days to rectify the situation. The statements and report were provided within the six-month period. In 2002 the Enterprise again has complied with all covenants, except for providing 2001 audited statements and an engineer's report within 120 days of year-end. The 2001 financial statements will be completed and the engineer's report finalized within the six-month extension period.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS, INVESTMENTS, AND REVERSE REPURCHASE AGREEMENTS**

**Deposits**

The County maintains deposit relationships with several local commercial banks and savings and loan banks in addition to its concentration bank.

All deposits not covered by the Federal Depository Insurance Corporation (FDIC) are covered by the Public Deposit Protection Commission of the State of Washington (PDPC). The PDPC is a statutory authority established under the *Revised Code of Washington (RCW)*, Chapter 39.58. It constitutes a multiple financial institution collateral pool that can make *pro rata* assessments to all public depositories within the state of up to 10 percent of all their public deposits. There is no current provision for PDPC to make additional *pro rata* assessments if needed to cover a loss. Therefore, PDPC protection is of the nature of collateral, not of insurance, in accordance with Governmental Accounting Standards Board (GASB), *Codification of Governmental Accounting and Financial Reporting Standards*, Section I50.110. As of December 31, 2001, the carrying amount of deposits for the Primary Government was \$292,657,458 and the bank balance was \$298,696,068.

	<u>CARRYING AMOUNT</u>	<u>BANK BALANCE</u>	<u>CATEGORY 1</u>	<u>CATEGORY 2</u>	<u>CATEGORY 3</u>
Demand deposits	\$ 32,462,446	\$ 38,501,056	\$ 35,916,946	\$	\$ 2,584,110
Certificates of deposit	<u>260,195,012</u>	<u>260,195,012</u>	<u>176,034,119</u>		<u>84,160,893</u>
Total deposits	<u>\$ 292,657,458</u>	<u>\$ 298,696,068</u>	<u>\$ 211,951,065</u>	<u>\$ -0-</u>	<u>\$ 86,745,003</u>

Category 1 includes (1) deposits insured by the FDIC; and, (2) a proportionate share of deposits uninsured but collateralized under the PDPC multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the County's agent in the name of the County. Some large depositories held public deposits in amounts in excess of the market value of the entire PDPC collateral pool. To the extent that uninsured public deposits of a financial institution exceed the PDPC's total pool value, equivalent proportions of the County's deposits in those institutions are classified as Category 3. Determination of these amounts is based on the conservative assumption that none of the excess public deposits were covered by FDIC insurance. Although such risk is recognized, the PDPC provides additional protection by maintaining strict standards as to the amount of public deposits financial institutions can accept, and by monitoring the financial condition of all public depositories and optimizing collateralization requirements. There are no uninsured deposits which are collateralized by securities held by the County's agent but not in the County's name (Category 2).

**Investments**

Statutes authorize King County to invest in obligations of the United States Treasury and instrumentalities; banker's acceptances issued in the secondary market; commercial paper; primary certificates of deposit issued by Washington State qualified public depositories as defined under *RCW* 39.58; and the State Treasurer's Investment Pool. The County is also authorized to enter into repurchase and reverse repurchase agreements.

County investment policies require that securities underlying repurchase agreements must have a market value of at least 102 percent of the cost of the repurchase agreement for investment terms of less than 30 days, and 105 percent for terms longer than 30 days. Repurchase agreements in excess of 60 days, and reverse repurchase agreements exceeding 180 days, are

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 3 – CONTINUED**

not allowed. Currently, the County's tri-party custodial bank monitors compliance with these provisions. The County does not enter into yield maintenance repurchase agreements. The County operates under the GASB's *Codification*, Section 2300.601, definition of derivatives and similar transactions. During the year, the County did not buy, sell, or hold any derivative or similar instrument except for certain mortgage-backed securities purchased by the King County investment pool to enhance investment yield. Although these securities are sensitive to early prepayments by mortgagees, usually resulting from a decline in interest rates, County policies are in place to ensure that only the lowest risk securities of this type are acquired.

The County's investments are categorized to give an indication of the level of credit risk assumed at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the County or its agent in the County's name.

	CATEGORY 1	CATEGORY 2 & 3	CARRYING AMOUNT (FAIR VALUE)
Repurchase agreements	\$ 357,914,649	\$	\$ 357,914,649
Commercial paper	428,674,095		428,674,095
Municipal bonds	151,142,213		151,142,213
U. S. government securities:			
Mortgage-backed securities	318,117,120		318,117,120
Treasury notes	163,365,196		163,365,196
U. S. agency issues	1,712,767,602		1,712,767,602
Totals	<u>\$ 3,131,980,875</u>	<u>\$ -0-</u>	<u>3,131,980,875</u>
State Treasurer's Investment Pool			258,075,233
Investments under reverse repurchase agreements			46,732,687
Total Investments (Primary Government)			<u>\$ 3,436,788,795</u>

The above schedule shows the types of investments made during the year, and the investment values at the end of the year for the Primary Government. These exclude the equity in the component units, i.e., Harborview Medical Center and the Washington State Major League Baseball Stadium Public Facilities District. To comply with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investments are reported at fair value. Fair value pricing is provided by the County's safekeeping bank or an independent pricing source.

There were no losses incurred during the period as a result of default by counterparties to deposit or investment transactions. During the period, there were no known violations of legal or contractual provisions for deposits and investments.

**Reverse Repurchase Agreements**

Statutes permit King County to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. County policy prohibits the use of these agreements as a borrowing mechanism. The proceeds from these agreements are reinvested in other instruments with the same maturities as the collateral securities, resulting in a matched position.

In accordance with the GASB's *Codification*, Section I55.116-117, the assets and liabilities related to the investment pool owned reverse repurchase agreements were allocated to the individual pool participants based on their equity in the pool as of December 31, 2001. The liability is

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 3 – CONTINUED**

reported as obligations under reverse repurchase agreements and the assets are reflected as an increase in cash equivalents in the balance sheets of funds that participate in the internal portion of the investment pool and in the balance sheet of the Investment Trust Fund for funds that participate in the external portion of the Investment Pool.

Reverse repurchase agreements are subject to credit risk. Should the dealers default on their obligation to resell these securities to the County, the County would be faced with an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The credit exposure at year-end was \$769,000 on reverse repurchase agreements in the Investment Pool.

**External Investment Pool**

For investment purposes, the County pools the cash balances of County funds and component units and also allows for participation by other legally separate entities such as special districts, for which the County is *ex officio* treasurer, and public authorities. The King County Investment Pool (the Pool) is an external investment pool in accordance with GASB 31, *Accounting and Financial Reporting For Certain Investments and for External Investment Pools*. The external portion of the Pool (portion that belongs to special districts and public authorities other than component units) is reported in an Investment Trust Fund. Certain of the County's debt service and reserve funds are restricted to investments permitted under the authorizing ordinances and resolutions, and therefore are not invested in the Pool. It is County policy to invest all other County funds in the Pool. All non-County participation in the Pool is voluntary.

The Pool is not registered with the SEC as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC) pursuant to RCW 36.29.020. The EFC consists of the Chair of the County Council, the County Executive, the Chief Budget Officer, and Manager of the Finance and Business Operations Division. All investments are subject to written policies and procedures adopted by the EFC. The EFC reviews pool performance monthly.

Summary information for all pool investments are presented below:

Investment	Fair Value	Principal	Average Interest Rate	Average Years to Maturity
Certificates of Deposit	\$ 60,000,000	\$ 60,000,000	3.20	0.70
Repurchase Agreements	103,265,000	103,265,000	1.92	0.01
Commercial Paper	430,174,093	431,154,000	2.32	0.13
Municipal Bonds	161,349,405	158,550,000	5.90	1.17
U.S. Government Securities:				
Treasury Securities	49,890,000	50,000,000	2.47	1.83
Agency Securities	975,493,801	952,960,000	5.47	1.81
Agency Mortgage-Backed Securities	416,008,149	409,173,183	6.11	2.71
State Treasurer's Investment Pool	275,504,006	275,504,006	2.31	0.15
Total	<u>\$ 2,471,684,454</u>	<u>\$ 2,440,606,189</u>	4.43	1.33

The Pool values participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period. Income is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) reduced by the contractually agreed upon investment fee. This method differs from the fair value method used to value investments in this

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 3 – CONTINUED**

statement because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values. The total difference between fair values of the investments in the Pool and the values distributed to the Pool participants using the amortized cost method described above is reported in the equity section of the statement of net assets as undistributed and unrealized gains.

All securities are reported at fair value. Fair value reports are prepared monthly and are distributed to all Pool participants. Fair value pricing is provided by the County's security safekeeping bank. If a security is not priced by the County's safekeeping bank, prices are obtained from Bloomberg L.P., a provider of fixed income analytics, market monitors, and security pricing. The County has not provided or obtained any legally binding guarantees to support the value of the Investment Pool's shares.

**Custodial Risk**

The Pool's deposits and investments are classified in various categories of custodial risk based on the same criteria for all deposits and investments of the County.

Demand deposits consist of \$60 million in certificates of deposits (CD), of which \$38,830,458 are category 1 and \$21,169,542 are category 3.

Investments other than CDs are categorized into risk categories as follows:

	CATEGORY 1	CATEGORY 2 & 3	CARRYING AMOUNT (FAIR VALUE)
Repurchase agreements	\$ 103,265,000	\$	\$ 103,265,000
Commercial paper	430,174,093		430,174,093
Municipal bonds	161,349,405		161,349,405
U. S. government securities:			
Mortgage-backed securities	338,546,044		338,546,044
U. S. agency issues	1,053,072,572		1,053,072,572
Totals	<u>\$ 2,086,407,114</u>	<u>\$ -0-</u>	<u>2,086,407,114</u>
State Treasurer's Investment Pool			275,504,006
Investments under reverse repurchase agreements			49,908,992
Total Investments (Total Pool)			<u><u>\$ 2,411,820,112</u></u>

The County's voluntary investment in the Washington State Treasurer's Local Government Investment Pool (LGIP) is not categorized because it is not evidenced by securities in physical or book entry form. The amount is carried at cost which approximates fair value. The LGIP is a 2a7-like pool that is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor's Office. The LGIP also contracts for an annual outside independent audit.

As previously indicated, the Pool owns reverse repurchase agreements at December 31, 2001. The investments under reverse repurchase agreements in the above schedule represent the collateral securities transferred to the lender in exchange for the cash received and used to purchase other securities. These securities are also not categorized because they are held by the lender as collateral.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 3 – CONTINUED**

The following is a condensed statement of net assets and changes in net assets for the entire King County Investment Pool as of December 31, 2001:

Condensed Statement of Net Assets	
Assets	\$ 2,481,566,258
Less: Liabilities	(55,149,250)
Net assets held in trust for pool participants	<u>\$ 2,426,417,008</u>
Equity of internal pool participants	\$ 1,364,426,578
Equity of external pool participants	1,061,990,430
Total equity	<u>\$ 2,426,417,008</u>
Condensed Statement of Changes in Net Assets	
Net assets at Dec. 31, 2000	\$ 2,052,534,795
Net change in investments by pool participants	373,882,213
Net assets at Dec. 31, 2001	<u>\$ 2,426,417,008</u>

**Individual Investment Accounts**

King County also sponsors individual investment accounts for other legally separate entities, such as special districts and public authorities that are not part of the financial reporting entity. Net assets in these individual investment accounts are reported in a separate Investment Trust Fund in the Trust and Agency section.

**Component Units****Harborview Medical Center**

Harborview Medical Center (HMC) participates in the County's investment pool. HMC's equity in the pool (reported as cash equivalents at June 30, 2001) amounted to \$126,717,922. In addition, HMC maintains demand deposit accounts in various banks. Demand deposits (insured up to \$100,000) total \$1,774,301 with a carrying amount of \$1,661,550. HMC also has access to \$1,640,506 in a University of Washington account for capital projects. Deposits and investments for the HMC component unit are categorized according to levels of custodial risk using the same criteria as the categorization for the King County Investment Pool deposits and investments:

	Carrying <u>Amount</u>	Bank <u>Balance</u>	Category <u>1</u>	Category <u>2</u>	Category <u>3</u>
Equity in Investment Pool	\$126,717,922	\$126,717,922	\$124,599,198		\$ 2,118,724
Cash in other banks	1,661,550	1,774,301	388,962		1,385,339
Total	<u>\$128,379,472</u>	<u>\$128,492,223</u>	<u>\$124,988,150</u>	<u>-0-</u>	<u>\$ 3,504,063</u>

**Washington State Major League Baseball Stadium Public Facilities District**

The Washington State Major League Baseball Stadium Public Facilities District (PFD) participates in the County's investment pool. The PFD's equity in the pool (reported as cash equivalents at December 31, 2001) amounted to \$16,198,100. Deposits and investments for the PFD component unit are categorized according to levels of custodial risk using the same criteria as the categorization for the King County investment pool. Of the PFD's equity in the investment pool, \$15,927,268 is classified as Category 1 and \$270,832 is Category 3.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 4 - PROPERTY TAXATION**

**Taxing Powers**

The County is authorized to levy both "regular" property taxes and "excess" property taxes. Regular property taxes are subject to limitations as to rates and amounts and are imposed for general municipal purposes, including the payment of debt service on limited tax general obligation bonds. The County also may impose "excess" property taxes that are not subject to limitation when authorized by a 60 percent majority popular vote, as provided in Article VII, Section 2, of the State Constitution and *Revised Code of Washington (RCW)*, Chapter 84.52.052. To be valid, such popular vote must have a minimum voter turnout of 40 percent of the number who voted at the last County general election, except that one-year excess tax levies also are valid if the turnout is not less than 24 percent of the number who voted at the last County general election. Excess levies may be imposed without a popular vote when necessary to prevent the impairment of the obligation of contracts.

Regular property tax levies are subject to rate limitations and amount limitations, as described below, and to the uniformity requirement of Article VII, Section 1 of the State Constitution, which specifies that a taxing district must levy the same rate on similarly classified property throughout the district. Aggregate property taxes vary within the County because of its different overlapping taxing districts.

*Maximum Rate Limitations.* The County may levy regular property taxes for two purposes: for general municipal purposes and for road district purposes. Each purpose is subject to a rate limitation. The general municipal purposes levy is limited to \$1.80 per \$1,000 of assessed value; the County levied \$1.22453 per \$1,000 in 2001. The road district purposes levy, which is levied in unincorporated areas of the County for road construction and maintenance and other County services provided in the unincorporated areas, is limited to \$2.25 per \$1,000; the County levied \$1.72628 per \$1,000 in 2001. Both the general purposes levy and the road district purposes levy are below the maximum allowable rate because of an additional limitation on the increase from one year to the next in the amount of taxes levied.

The County is authorized to increase its general purposes levy to a maximum of \$2.475 per \$1,000 of assessed value if the total combined levies for both general and road purposes do not exceed \$4.05 per \$1,000 and if no other taxing district has its levy reduced as a result of the increased County levy (*RCW* 84.52.043).

The \$1.80 per \$1,000 limitation on the general purposes levy is exclusive of certain regular property taxes: (i) a voted levy for emergency medical services, limited to \$0.50 per \$1,000 (authorized by *RCW* 84.52.069); (ii) a voted levy to finance affordable housing for very low income households, limited to \$0.50 per \$1,000 (authorized by *RCW* 84.52.105); and (iii) a non-voted levy for conservation futures, limited to \$0.0625 per \$1,000 (authorized by *RCW* 84.34.230). A tax for emergency medical services has been authorized for three years beginning in 1999, at a rate of \$0.29 per \$1,000. The County currently is levying \$0.06246 per \$1,000 for conservation futures. In 2000, voters in the County approved a levy of \$0.05784 per \$1,000, which is in excess of the regular property tax increase limitation, to finance an automated fingerprint identification system. This five-year levy began in 2001; the current levy rate is \$0.05784 per \$1,000.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 4 - CONTINUED**

*One Percent Aggregate Regular Property Tax Levy Limitation.* Aggregate regular property tax levies by the State and all taxing districts except port districts and public utility districts are subject to a rate limitation of one percent of the true and fair value of property (or \$10.00 per \$1,000) by Article VII, Section 2 of the State Constitution and by RCW 84.52.050.

*\$5.90/\$1,000 Aggregate Regular Property Tax Levy Limitation.* Within the one percent limitation described above, aggregate regular property tax levies by all taxing districts except the State, port districts and public utility districts are subject to a rate limitation of \$5.90 per \$1,000 of assessed value (or 0.59%) by RCW 84.52.043(2). This limitation is exclusive of levies for emergency medical services, affordable housing for very low income households and acquiring conservation futures.

If aggregate regular property tax levies exceed the one percent or \$5.90 per \$1,000 limitations, levies requested by "junior" taxing districts within the area affected are reduced or eliminated according to a detailed prioritized list (RCW 84.52.010), in order to bring the aggregate levy into compliance. Junior taxing districts are defined by RCW 84.52.043 as all taxing districts other than the State, counties, cities, towns, road districts, port districts, and public utility districts.

*Regular Property Tax Increase Limitation.* The regular property tax increase limitation (RCW 84.55), as amended by Chapter 3, Laws of 1997 (the "Property Tax Act"), limits the total dollar amount of regular property taxes levied by an individual taxing district to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction at the previous year's rate. The limit factor is defined as the greater of (i) the lesser of 106 percent or 100 percent plus inflation, or (ii) any percent up to 106 percent, if approved by a majority plus one vote of the governing body of the municipality, upon a finding of substantial need.

RCW 84.55.092 allows the property tax levy to be set at the amount that would be allowed if the tax levy for taxes due in each year since 1986 had been set at the full amount allowed under RCW 84.55. As allowed by RCW 84.55.050, within the rate limitations described above and with a majority vote of its electors, a taxing district may levy more than what otherwise would be allowed for an indefinite or limited period, or to satisfy a limited purpose. A newly created taxing district can initiate its levy at the maximum permitted statutory levy rate, unless that rate would exceed any of the limitations described above.

Since the regular property tax increase limitation applies to the total dollar amount levied rather than to levy rates, increases in the assessed value of all property in the taxing district (excluding new construction) which exceed the growth in taxes allowed by the limit factor result in decreased regular tax levy rates, unless voters authorize a higher levy.

**Property Tax Calendar**

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 4 - CONTINUED**

May 31            Assessed value of property established for next year's levy at 100 percent of market value.

October 31      Second installment is due.

**Tax Collection Procedures**

Property taxes are levied in specific amounts by the County Council and the rate for all taxes levied for all taxing districts in the County is determined, calculated and fixed by the County Assessor (the "Assessor") based upon the assessed valuation of the property within the various taxing districts. The Assessor extends the tax levied within each taxing district upon a tax roll that contains the total amounts of taxes levied and to be collected and assigns a tax account number to each tax lot. The tax roll is delivered to the Treasury Operations Section Manager who is responsible for the billing and collection of taxes due for each account. All taxes are due and payable on April 30 of each tax year, but if the amount due from a taxpayer exceeds fifty dollars, one-half may be paid then and the balance no later than October 31 of that year (except that one-half of real property taxes may be paid at any time prior to October 31 if accompanied by penalties and interest accrued until the date of payment).

The methods for giving notice of payment of taxes due, collecting such taxes, accounting for the taxes collected, dividing the collected taxes among the various taxing districts, and giving notice of delinquency are covered by detailed State statutes. The County's lien on personal property taxes levied by the County Council before the filing of federal tax liens is senior to such federal tax liens. In all other respects, and subject to the possible "Homestead Exemption" described below, the lien for property taxes is senior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law, the County may commence foreclosure on a tax lien on real property after three years have passed since the first delinquency. The State's courts have not decided if the homestead law (*RCW 6.13*) gives the occupying homeowner a right to retain the first \$30,000 of proceeds of the forced sale of a family residency or other "homestead" property for delinquent general property taxes. The United States Bankruptcy Court for the Western District of Washington has held that the Homestead Exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

**Assessed Valuation Determination**

The Assessor determines the value of all real and personal property throughout the County that is subject to *ad valorem* taxation, with the exception of certain public service properties for which values are determined by the State Department of Revenue. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue.

For tax purposes, the assessed value of property is 100 percent of its true and fair value. Since 1996, all property in the County has been subject to on-site appraisal and revaluation every six years, and is revalued each year based on annual market adjustments. Personal property is valued each year based on affidavits filed by the property owner. The property is listed by the

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 4 - CONTINUED**

Assessor on a roll at its current assessed value and the roll is filed in the Assessor's office. The Assessor's determinations are subject to revision by the County Board of Appeals and Equalization and, if appealed, subject to further revision by the State Board of Tax Appeals. At the end of the assessment year, in order to levy taxes payable the following year, the County receives the Assessor's final certificate of assessed value of property within the County.

**Accounting for Property Taxes Receivable**

Property taxes levied for the current year are recorded on the balance sheet as taxes receivable and deferred revenue at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time the balance sheet accounts, Taxes receivable and Deferred revenues, are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end, all uncollected property taxes are reported on the balance sheet as Taxes receivable-delinquent and Deferred revenues.

**Allocation of Tax Levies**

The following table compares the allocation of the 2001 and 2000 County-wide, Emergency Medical Services and unincorporated County tax levies by fund, showing for each year the original tax levy and levy rate. The original tax levy reflects the levy before any supplemental levies, tax cancellations, or other adjustments. The 2001 County-wide assessed valuation was \$188,420,103,797, an increase of \$22.1 billion from 2000. The assessed valuation for the unincorporated area levy was \$29,684,700,178, which is a decrease of \$2.6 billion from 2000.

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

**NOTE 4 - CONTINUED**

## ALLOCATION OF 2001 AND 2000 TAX LEVIES

	2001 Original Taxes Levied (in thousands)	2001 Levy Rate (per thousand)	2000 Original Taxes Levied (in thousands)	2000 Levy Rate (per thousand)
County-wide Levy Assessed Valuation: \$188,420,103,797(1)				
Items Within Operating Levy(2)				
General Fund	\$ 201,660	\$ 1.07656	\$ 191,609	\$ 1.16031
River Improvements	2,278	0.01216	2,190	0.01326
Veterans' Relief	1,927	0.01029	1,856	0.01124
Human Services	4,282	0.02286	4,125	0.02498
Intercounty River Improvement	50	0.00027	50	0.00030
Limited G.O. Bonds Debt Service	19,181	0.10239	20,433	0.12373
Automated Fingerprint Identification System(3)	10,834	0.05784	10,602	0.06420
Total Operating Levy	<u>240,212</u>	<u>1.28237</u>	<u>230,865</u>	<u>1.39802</u>
Conservation Futures Levy(4)				
Conservation Futures Levy	6,565	0.03506	4,946	0.02997
Farmland and Park Debt Service	5,133	0.02740	5,365	0.03248
Total Conservation Futures Levy	<u>11,698</u>	<u>0.06246</u>	<u>10,311</u>	<u>0.06245</u>
Unlimited Tax G.O. Bonds (Voter-approved Excess Levy)	38,459	0.20735	37,395	0.22904
Total County-wide Levy	<u>290,369</u>	<u>1.55218</u>	<u>278,571</u>	<u>1.68951</u>
EMS Levy(5) Assessed Valuation: \$122,796,628,563(1)	<u>30,089</u>	<u>0.24624</u>	<u>29,517</u>	<u>0.27299</u>
Unincorporated County Levy Assessed Valuation: \$29,684,700,178(1)(6)				
County Road Fund	<u>50,937</u>	<u>\$ 1.72628</u>	<u>46,693</u>	<u>\$ 1.73938</u>
Total County Tax Levies	<u>\$ 371,395</u>		<u>\$ 354,781</u>	

(1) Assessed valuation for taxes payable in 2001.

(2) The operating levy tax rate is statutorily limited to \$1.80 per \$1,000 of assessed valuation.

(3) The Automated Fingerprint Identification System (AFIS) levy is a regular property tax to be assessed for five years beginning in 2001 at a levy rate of not more than \$0.05784 per \$1,000 of assessed valuation as authorized by RCW 84.55.050 and a proposition approved by a majority of the voters of King County. The levy was approved by the County voter for the period 1996-2000 at a rate of no more than \$0.0665 per \$1,000 of assessed value.

(4) The Conservation Futures levy tax rate is statutorily limited to \$0.0625 per \$1,000 of assessed valuation.

(5) The Emergency Medical Services (EMS) levy shown excludes that portion of the levy within the City of Seattle. The levy was approved by the voters of King County for a three-year period with collection beginning in 1999.

(6) The tax rate is statutorily limited to a maximum of \$2.25 per \$1,000 of assessed valuation.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 5 - FIXED ASSETS****Summary of Changes in Fixed Assets**

The following is a summary of changes in fixed assets for the King County Primary Government:

CHANGES IN FIXED ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2001

	BALANCE 01/01/01	INCREASES	DECREASES	BALANCE 12/31/01
GENERAL FIXED ASSETS				
Land	\$ 287,783,236	\$ 20,744,972	\$ 17,092,819	\$ 291,435,389
Farmland development rights	58,377,713	202,218		58,579,931
Buildings	477,606,020	36,335,831	31,359,674	482,582,177
Furniture, machinery and equipment	91,378,789	31,578,184	9,202,214	113,754,759
Work in progress	53,822,542	27,726,285	16,988,164	64,560,663
TOTAL GENERAL FIXED ASSETS	968,968,300	116,587,490	74,642,871	1,010,912,919
ENTERPRISE FUNDS				
Land	185,963,127	840,800	2,106,369	184,697,558
Buildings	673,365,023	6,532,964	361,461	679,536,526
Improvements other than buildings	1,285,434,283	59,728,885	18,425,419	1,326,737,749
Furniture, machinery and equipment	1,492,958,190	98,352,254	22,297,316	1,569,013,128
Work in progress	271,600,147	216,406,835	144,651,388	343,355,594
TOTAL ENTERPRISE FUNDS	3,909,320,770	381,861,738	187,841,953	4,103,340,555
ACCUMULATED DEPRECIATION	(1,336,784,471)	(165,843,655)	(18,518,890)	(1,484,109,236)
INTERNAL SERVICE FUNDS				
Improvements other than buildings	1,216,934		27,785	1,189,149
Rental equipment	67,634,673	7,875,872	3,098,624	72,411,921
Data processing equipment	11,338,815	1,049,177	500,311	11,887,681
Telecommunication equipment	1,509,010			1,509,010
Furniture, machinery and equipment	12,525,153	768,123	3,933,008	9,360,268
Work in progress	3,015,322	399,231	1,388,590	2,025,963
TOTAL INTERNAL SERVICE FUNDS	97,239,907	10,092,403	8,948,318	98,383,992
ACCUMULATED DEPRECIATION	(59,437,181)	(9,180,401)	(6,025,624)	(62,591,958)
TOTAL FIXED ASSETS	4,975,528,977	508,541,631	271,433,142	5,212,637,466
TOTAL ACCUMULATED DEPRECIATION	(1,396,221,652)	\$ (175,024,056)	\$ (24,544,514)	(1,546,701,194)
TOTAL NET FIXED ASSETS OF PRIMARY GOVERNMENT	\$ 3,579,307,325			\$ 3,665,936,272

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 5 - CONTINUED****Stadium Enterprise Fixed Assets**

The King County Stadium (Kingdome) was demolished on March 26, 2000, to pave the way for the construction of a new voter-approved football stadium. Stadium Enterprise fixed assets were retired as of December 31, 2000, except for a warehouse building.

**Work In Progress**

The decreases column in Enterprise Funds Work in progress represents completed projects transferred to Buildings; Improvements other than buildings; or Furniture, machinery and equipment. In the General Fixed Assets Account Group, the decreases column in Work in progress represents completed projects transferred to Buildings and the acquisition and development costs of a payroll system transferred to Equipment. General Fixed Assets Work in progress include the cost of the Financial Systems Replacement Project.

**Farmland Development Rights**

The Farmland Preservation Program was established to preserve, protect and enhance agricultural lands and open spaces. Under this program, the County has acquired farmland development rights for over 12,500 acres. "Development rights" are the rights to develop land for any uses other than farming or open space. The owner who sells development rights sells only a part of an owner's property rights and retains all other ownership rights. The owner can live on the land and use it for agriculture or open space purposes or transfer or sell the land. However, the owner of the land for which King County has purchased the development rights may not build non-farm commercial or residential buildings on the land or subdivide the land for commercial or residential development. The development rights, so purchased, are held in trust by the County for the benefit of its citizens in perpetuity.

**Estimates of Historical Costs**

The General Fixed Assets Account Group includes \$5,057,905 in buildings at estimated historical cost. To arrive at the estimate, 1974 current replacement values were reduced 2.5 percent per year for each year of estimated useful life elapsed as of 1974.

The King County International Airport Enterprise Fund fixed assets include \$1,420,933 in Buildings and \$2,916,000 in Improvements other than buildings at estimated historical cost or estimated fair market value at the date donated. All of these assets have been fully depreciated. The values were calculated by adjusting 1961 appraisal values using the appropriate index in the Marshall Valuation Service.

**General Fixed Assets Reverting to Private Ownership in Future Years**

General fixed assets in the amount of \$5,150,046, financed from Referendums #29 and #37 grants from the State of Washington, revert to private ownership in future years.

**Real Property Under Capital Lease**

King County land and buildings include the capitalized costs of the King Street Center and the Issaquah District Court properties. These properties are legally owned by private property

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

**NOTE 5 - CONTINUED**

management companies who are leasing the buildings to the County under terms which are in substance capital leases. The rental payments collected include the monthly debt service costs of the privately issued bonds used to construct the buildings. The lease contracts provide for a bargain purchase option at the end of the lease term. The capital lease obligations are reported as general long-term debt of the County.

**Component Units***Harborview Medical Center*

A summary of changes in HMC fixed assets is provided by the following schedule:

CHANGES IN FIXED ASSETS  
 COMPONENT UNIT - HARBORVIEW MEDICAL CENTER  
 FOR THE PERIOD ENDED JUNE 30, 2001

	BALANCE <u>07/01/00</u>	<u>INCREASES</u>	<u>DECREASES</u>	BALANCE <u>06/30/01</u>
Land	\$ 1,585,972	\$	\$	\$ 1,585,972
Buildings	162,962,456	11,542,057	855	174,503,658
Improvements other than buildings	922,332	346,805		1,269,137
Furniture, machinery and equipment	210,259,244	8,457,858	3,658,564	215,058,538
Work in progress	8,629,778	11,997,568	11,733,504	8,893,842
TOTAL FIXED ASSETS	<u>384,359,782</u>	<u>32,344,288</u>	<u>15,392,923</u>	<u>401,311,147</u>
ACCUMULATED DEPRECIATION	<u>(140,595,206)</u>	<u>\$(22,406,149)</u>	<u>\$(2,773,297)</u>	<u>(160,228,058)</u>
TOTAL NET FIXED ASSETS	<u><u>\$ 243,764,576</u></u>			<u><u>\$ 241,083,089</u></u>

In addition to the above, HMC also has property held for future use which at June 30, 2001, consisted of:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	\$2,717,798	\$
Buildings	1,753,518	516,276
Improvements other than buildings	<u>26,344</u>	<u>21,953</u>
Total	<u><u>\$4,497,660</u></u>	<u><u>\$ 538,229</u></u>

These fixed assets are included with HMC's board-designated assets which are reported as restricted assets. (See Note 14 - "Segment Information for Enterprises," Component Unit - Harborview Medical Center Restricted Assets.)

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

**NOTE 5 - CONTINUED***Washington State Major League Baseball Stadium Public Facilities District (WSMLB)*

The following are the changes in fixed assets for the WSMLB Stadium Public Facilities District. Leasehold improvements pertain to tenant improvements financed by The Baseball Club of Seattle.

CHANGES IN FIXED ASSETS  
 COMPONENT UNIT - WSMLB STADIUM PUBLIC FACILITIES DISTRICT  
 FOR THE PERIOD ENDED DECEMBER 31, 2001

	BALANCE 01/01/01	ADJUSTMENTS	INCREASES	DECREASES	BALANCE 12/31/01
Baseball Stadium	\$519,460,912	\$(30,699,860)	\$ 80,300	\$	\$ 488,841,352
Land	9,102,705	30,697,764			39,800,469
Leasehold Improvements			4,060,986		4,060,986
Furniture, machinery and equipment	45,297		853		46,150
TOTAL FIXED ASSETS	528,608,914	(2,096)	4,142,139	-0-	532,748,957
TOTAL ACCUMULATED DEPRECIATION	(18,370,822)	\$ 2,096	\$(12,215,882)	\$ -0-	(30,584,608)
TOTAL NET FIXED ASSETS	<u>\$510,238,092</u>				<u>\$502,164,349</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS**

Substantially all full-time and qualifying part-time County employees participate in either the Public Employees' Retirement System (PERS), the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), or the Seattle City Employees' Retirement System (SCERS). PERS and LEOFF are statewide local government retirement systems administered by the State of Washington's Department of Retirement Systems under cost-sharing, multiple-employer defined benefit public employee retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380.

Historical trend and other information regarding SCERS is presented in the Seattle City Employees' Retirement System annual financial report. A copy of this report may be obtained at: Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, WA 98104.

**Public Employees' Retirement System (PERS)**

**Plan Description**

PERS is a cost-sharing multiple-employer defined benefit pension plan. Membership in the plan includes elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; non-certificated employees of school districts; and employees of local government. The PERS system includes two plans. Participants who joined the system by September 30, 1977, are Plan 1 members. Those joining thereafter are enrolled in Plan 2. Retirement benefits are financed from employee and employer contributions and investment earnings. Retirement benefits in both Plan 1 and Plan 2 are vested after completion of five years of eligible service. Retirement benefit provisions are established in state statute and may be amended only by the state legislature.

Plan 1 members are eligible for retirement at any age after 30 years of service, at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is two percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age 66, retirees are granted a cost-of-living allowance based on years of service credit which is capped at 3 percent annually.

Plan 2 members may retire at age 65 with five years of service, or at age 55 with 20 years of service, with an allowance of two percent per year of service of the average final compensation. Average final compensation is based on the greatest compensation during any 60 eligible consecutive service credit months. Plan 2 retirements prior to 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3 percent per year reduction applies, otherwise an actuarial reduction will apply. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at 3 percent annually.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 6 - CONTINUED**

There are 1,177 participating employers in PERS. Membership in PERS consisted of the following at December 31, 2000:

Retirees and Beneficiaries Receiving Benefits	61,088
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	17,314
Active Plan Members Vested	98,018
Active Plan Members Nonvested	<u>54,243</u>
Total	<u>230,663</u>

**Funding Policy**

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates and Plan 2 employer and employee contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 are set by the director of the Department of Retirement Systems based on recommendations of the Office of the State Actuary to continue to fully fund Plan 2. All employers are required to contribute at the level established by state law. The methods used to determine the contribution rates are established under state statute in accordance with *Revised Code of Washington (RCW)*, Chapters 41.40 and 41.45.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2001, were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>
Employer	1.77% <sup>1</sup>	1.77% <sup>1</sup>
Employee	6.00%	0.88%

Both the County and the employees made the required contributions. The County's required contributions, net of administrative fee, for the years ended December 31 were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>
2001	\$ 2,754,000	\$ 15,681,000
2000	3,994,250	20,658,600
1999	5,857,000	27,179,000

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)****Plan Description**

LEOFF is a cost-sharing multiple-employer defined benefit pension plan. Membership in the plan includes all full-time, fully compensated local law enforcement officers and firefighters. LEOFF is comprised solely of nonstate employees. The LEOFF system includes two defined benefit pension plans. Participants who joined the system by September 30, 1977, are Plan 1 members. Those joining thereafter are enrolled in Plan 2. Retirement benefits are financed

<sup>1</sup> The employer rates include the employer administrative expense fee currently set at 0.23%.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 6 - CONTINUED**

from employee and employer contributions, investment earnings, and state contributions. Retirement benefits in both Plan 1 and Plan 2 are vested after completion of five years of eligible service. Retirement benefit provisions are established in state statute and may be amended only by the state legislature.

Plan 1 members are eligible to retire with five years of service at age 50. The benefit per year of service is as follows, with a cost-of-living allowance granted and capped at three percent annually:

<u>Term of Service</u>	<u>Percent of Final Average</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

Plan 2 members are eligible to retire at age 50 with 20 years of service, or at age 53 with five years of service. Retirement benefits prior to age 53 are actuarially reduced 3 percent for each year that the benefit commences prior to age 53. The benefit is 2 percent of average salary per year of service. The average salary is based on the highest consecutive 60 months. There is no cap on years of service credit and a cost-of-living allowance is granted and capped at 3 percent annually.

There are 362 participating employers in LEOFF. Membership in LEOFF consisted of the following at December 31, 2000:

Retirees and Beneficiaries Receiving Benefits	7,923
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	279
Active Plan Members Vested	10,680
Active Plan Members Nonvested	<u>3,952</u>
Total	<u>22,834</u>

**Funding Policy**

Plan 1 employer and employee contribution rates are established by statute, and the state is responsible for the balance of the funding at rates set by the Pension Funding Council to fully amortize the total costs of the plan. Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee rates for Plan 2 are set by the director of the Department of Retirement Systems based on recommendations of the Office of the State Actuary to continue to fully fund the plan. Plan 2 employers and employees are required to contribute at the level required by state law. The methods used to determine the contribution rates are established under state statute in accordance with *RCW*, Chapters 41.26 and 41.45.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2001, were:

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 6 - CONTINUED**

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer	0.23% <sup>2</sup>	2.93% <sup>2</sup>
Employee	0.00%	4.50%

Both the County and the employees made the required contributions. The County's required contributions, net of administrative fee, for the years ended December 31 were:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2001	\$ 0	\$ 1,417,425
2000	112,940	1,311,385
1999	245,455	1,497,365

**Seattle City Employees' Retirement System (SCERS)**

SCERS is a cost-sharing multiple-employer retirement plan administered in accordance with the *Seattle Municipal Code*, Chapter 4.36. County employees of the Department of Public Health who have established membership in SCERS remain covered by the City Retirement System. In addition, employees of Public Transportation who are former employees of Seattle Transit are covered by the system. SCERS provides retirement, death, and disability benefits.

Employees covered by this Plan may retire after 30 years of service regardless of age, after age 52 with 20 years or more of service, after age 57 with ten or more years of service, and after age 62 with five or more years of service. Disability retirement is available after ten years of service. The unmodified monthly retirement allowance is based on a percentage of average salary for every year of service to a maximum of 60 percent. The average salary for this Plan is defined as the highest consecutive twenty-four months average rate of pay. The percentage for each year of service used to compute the retirement benefit depends on the age at retirement and the years of service, and ranges from 1.2 percent at age 52 with 20 years of service to a maximum of 2 percent for each year of service. The maximum allowance a member can receive is the unmodified plan which has no provision for a beneficiary and at the member's death all payments stop. Several optional retirement benefit formulas exist which provide for beneficiaries with reduced monthly allowances.

The SCERS member contribution rate is 8.03 percent of compensation except for members qualifying for lower rates prior to June 1972. The County is required to contribute at an actuarially determined rate. The current rate is 8.03 percent of annual covered payroll. The contribution requirements of plan members and the County are established and may be amended by the Board of Administration. Both the County and the employees made the required contributions. The County's required employer contributions for the years 1999, 2000, and 2001 ending December 31 were \$1,017,200, \$960,600, and \$913,700, respectively.

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<sup>2</sup> The employer rates include the employer administrative expense fee currently set at 0.23%.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 6 - CONTINUED****Component Unit - Harborview Medical Center (HMC)**

HMC personnel are University of Washington (UW) employees and as such participate in either the State of Washington Public Employees Retirement System or the University of Washington Retirement System (Teachers Insurance and Annuity Association and the College Retirement Equities Fund). All plans include contributions by both employee and employer. Employer contributions are paid monthly by UW in accordance with rates specified by the retirement systems.

**Component Unit - WSMLB Stadium Public Facilities District (PFD)**

All employees of the District participate in either the Public Employees' Retirement System (PERS) or the Stadium PFD Retirement Plan. Employer contributions are paid by the District in accordance with rates specified by the individual plans. Total payroll covered by all systems for the year ended December 31, 2001, was \$31,956.

As a municipal corporation of the State of Washington, the Washington State Major League Baseball Stadium Public Facilities District (PFD) employees are eligible for membership in the State of Washington Public Employees Retirement System (PERS). The PFD Board of Directors adopted participation in the PERS Plan in 1996. However, admission to PERS was effective February 1, 1997, with the ability to retroactively purchase service credit for employee service earned in 1996. Retroactive payments will be paid over a five-year period.

Employees are also able to select the Stadium PFD Retirement Plan as an alternative benefit plan to PERS. The Plan is designated as a profit-sharing plan in accordance with Section 401 (a)(27)(B) of the Internal Revenue Code. No contribution by participants is required or permitted other than authorized rollover contributions. All contributions to the Plan vest immediately. Actual contributions made to the Plan in 2001 were \$1,433.

**NOTE 7 - POSTRETIREMENT HEALTH CARE BENEFITS**

In accordance with the Washington Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) Act (*RCW* 41.26), the County provides certain health care benefits for retired full-time, fully compensated law enforcement officers who established membership in the LEOFF I retirement system on or before September 30, 1977. Substantially all of the County's law enforcement officers who established membership in the LEOFF I retirement system may become eligible for those benefits when they reach normal retirement age. The King County Sheriff's Office, in conjunction with the King County Disability Board, reimburses retired LEOFF I police officers for reasonable medical charges as described in the LEOFF Act. In 2001, 320 retirees received benefits under this act. As of December 31, 2001, there were 44 active officers with an average age of 55 who may become eligible for those benefits when they reach normal retirement age.

The cost of retiree health care benefits is recognized as an expenditure in the General Fund as claims are paid. For 2001 those costs total \$1,067,778, with an average cost per retiree of \$3,337.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 8 - RISK MANAGEMENT**

As a municipal organization, the County has a wide range of loss exposures.

The County uses three internal service funds to account for and finance property/casualty, workers' compensation, and employee medical and dental benefits self-insurance programs. Unemployment liability, excluding that related to Public Transportation and Water Quality Enterprises, is accounted for in the funds with loss experience and the General Long-term Debt Account Group. The County contracts with a plan administrator to process medical and dental claims. County fund/claims managers, together with the Civil Division of the King County Prosecuting Attorney's Office, are responsible for processing all tort and workers' compensation claims.

Claims settlements and loss expenses are accrued in the three internal service funds for the estimated settlement value of both reported and unreported claims. These funds are responsible for collecting interfund premiums from insured funds and departments, for paying claim settlements and for purchasing certain policies. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures.

**Insurance Fund**

The Insurance Fund, an internal service fund, accounts for the County's property/casualty program. The Fund, established in 1977, accounts for the County's exposures to loss due to the tortious conduct of the County which include those that are commonly covered by general liability, automobile liability, police professional, directors and officials, errors and omissions, and professional malpractice insurance policies. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund at December 31, 2001, is \$46,190,229.

The County has been able to purchase insurance to cover property loss exposures but is self-funding the first \$5 million of any one loss for most general liability, automobile liability, police liability, directors and officials, errors and omissions, and Health Department professional malpractice exposures. Since July 1, 1993, the County has purchased excess liability coverage that provides \$20 million in limits above the \$5 million per occurrence self-insured retention for its general liability, automobile liability, police liability, directors and officials, errors and omissions, and Health Department professional malpractice exposures. Historically, the former Metro government purchased \$45 million in limits above a \$5 million per occurrence self-insured retention for its general liability, automobile liability, directors and officials, and errors and omissions exposures.

Effective October 1, 1995, the County's excess liability policy was amended to include the exposures of the former Metro government's Public Transportation and Water Quality functions. The policy limits were increased to \$50 million above a \$5 million per occurrence self-insured retention. Effective August 1, 1997, the County increased limits to \$75 million above its \$5 million self-insured retention. Effective September 1, 1998, the County increased limits to \$100 million above a \$2.5 million per occurrence self-insured retention. The County also purchases property insurance that provides a blanket limit of \$3.3 billion with \$240 million in earthquake and \$150 million in flood limits.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 8 – CONTINUED**

In addition to its property insurance policies and excess liability policy, the County has specific liability insurance policies to cover some of its other exposures. The County has a liability policy for the King County International Airport with policy limits of \$300 million; a property and liability policy to cover the police helicopter activities (with liability limits of \$50 million); and excess coverage for the Workers' Compensation program. The County also has a combined "crime" coverage policy that provides \$10 million in limits with a \$25,000 deductible.

Coverage is provided for protection against loss caused by employee dishonesty; the dishonest acts of third parties in writing or altering checks or other financial instruments; the theft, disappearance and destruction of monies at County locations or when conveyed by a messenger; and for faithful performance of duty. In the past three years, two occurrences have resulted in payments in excess of the self-insured retention. There have been no settlements in excess of the insurance coverage in the prior three years.

During 2001 there were significant changes made in the County's insurance program. The County was able to retain a \$2.5 million per occurrence self-insured-retention (S.I.R) but must satisfy a \$1 million "corridor" deductible (i.e., the County must pay an additional \$1 million self-insured retention either from a single large loss or a combination of losses above the County's \$2.5 million deductible). The premium increased from \$1.5 million to \$2.2 million (on an annualized basis) for \$97.5 million in limits. The substantial increase in premium is attributable to the County's recent large loss experiences (Aurora Bridge and the Solid Waste landfill cases), the substantial tightening in the insurance marketplace, and several recent large outcomes within Washington State involving other governmental entities.

In line with the increasing importance of its program of self-insurance, the County has significantly increased funding for the program commensurate with increases in estimated case reserve requirements and incurred-but-not-reported losses. The cash balance in the Insurance Fund has increased from \$2.1 million at December 31, 1985, to more than \$72 million at December 31, 2001.

In addition to funding reserves for known and incurred-but-not-reported cases, the County has adopted a plan to create catastrophic loss reserves to respond to large, non-recurring losses. The catastrophic loss financing program is financed with annual contributions in excess of \$1 million with interest earnings being invested to the benefit of the catastrophic loss reserves. Through December 31, 2001, \$14.7 million of the \$72 million cash balance in the Insurance Fund has been designated for catastrophic loss reserves (see Note 12, "Reserves, Designations, and Changes in Equity").

With the assistance of an actuary, the Insurance Fund's claims liability is estimated based upon historical claims experience and other actuarial techniques. The changes in the Insurance Fund's claims liability in 2000 and 2001 were as follows:

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 8 – CONTINUED**

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End-of-Year Liability</u>
2000	\$ 47,255,000	\$ 26,918,350	\$ (24,982,350)	\$ 49,191,000
2001	49,191,000	8,390,564	(11,391,335)	46,190,229

**Safety and Workers' Compensation Fund**

The Safety and Workers' Compensation Fund, an internal service fund, accounts for the County's self-insurance for workers' compensation as certified under the *Revised Code of Washington*, Industrial Insurance Act, Title 51. Interfund premiums are based on the hours worked by the fund/department-covered employees times an hourly rate that varies for different classes of employees and are recorded as quasi-external interfund transactions. Public Transportation internal fund charges are derived from actuarial projections of their future claims and administrative costs. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund at December 31, 2001, is \$12,500,000.

The County purchases a workers' compensation excess policy that provides statutory limits above a \$400,000 per occurrence self-insured retention. Effective June 1995 the self-insured retention was increased to \$500,000. There has been one settlement in excess of the insurance coverage in the prior three years.

The Fund's claims liability is estimated based on reserves for known claims plus a liability for incurred but unreported claims based on historical experience. Changes in the Safety and Workers' Compensation Fund's claims liability in 2000 and 2001 were:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End-of-Year Liability</u>
2000	\$ 12,050,000	\$ 12,920,000	\$ (12,550,000)	\$ 12,420,000
2001	12,420,000	14,038,600	(13,958,600)	12,500,000

**Employee Benefits Program Fund**

The Employee Benefits Program Fund, an internal service fund, accounts for employee medical, dental, vision, life, accidental death and dismemberment, and long-term disability benefit programs, except for Public Safety LEOFF retiree medical benefits. There are six insured and two self-insured medical plans. Fifty-one percent of County employees were insured through the two self-insured medical plans. The dental and vision plans are also self-insured. Interfund premiums are determined on a per employee per month basis and charged to departments through a composite rate of expected claims, expenses and premiums. In some cases, there are employee contributions towards premiums. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund at December 31, 2001, is \$10,761,993.

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

**NOTE 8 – CONTINUED**

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2000 and 2001 were:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End-of-Year Liability
2000	\$ 8,872,840	\$ 56,406,867	\$ (54,593,420)	\$ 10,686,287
2001	10,686,287	59,738,051	(59,662,345)	10,761,993

**Unemployment Liability**

The County has elected to retain the risk for unemployment compensation payable to former County employees. The State of Washington Employment Security Department bills the County for the unemployment compensation benefits paid to former employees. Expenditures are then recognized in various County funds. In addition, a long-term liability of \$1,172,763 is recorded in the General Long-term Debt Account Group for the estimated future claims liability for employees as of December 31, 2001.

Changes in the General Long-term Debt Account Group's liability for unemployment compensation in 2000 and 2001 were:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End-of-Year Liability
2000	\$ 969,000	\$ 1,266,500	\$ (1,184,345)	\$ 1,051,155
2001	1,051,155	1,534,576	(1,412,968)	1,172,763

**Component Unit – Harborview Medical Center****Insurance Fund**

Harborview Medical Center (HMC) participates in a self-insurance revolving fund for professional liability coverage through the University of Washington (UW). As of June 30, 2001, the UW did not carry commercial general liability coverage at levels below \$2 million per occurrence. The UW's philosophy with respect to its self-insurance programs is to fully fund its anticipated losses through the establishment of actuarially determined self-insurance reserves. These reserves are deposited in a statutorily created and regulated fund and can only be expended for payment of claim costs and related expenses.

The annual funding to the self-insurance revolving fund is determined by the UW administration based on recommendations from the UW's Risk Management Advisory Committee. The HMC's *pro rata* share of premiums paid to the self-insurance revolving fund were approximately

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 8 – CONTINUED**

\$957,000 in the period July 1, 1999 to June 30, 2000 and \$924,000 in the period July 1, 2000 to June 30, 2001.

**Employee Benefits Program**

Term insurance, salary continuation insurance, and a variety of medical insurance plans are available on a group basis to all permanent employees of HMC. The plans are designated and authorized through the State Employees Insurance Board covering all eligible faculty and staff of the public institutions of higher education.

All employees of HMC are covered by Workers' Compensation and Medical Aid Acts for injuries and occupational diseases that occur during the course of their employment. Coverage includes doctors' services, hospital care, ambulance, appliances, compensations for permanent partial and total disability, and allowances and pensions to surviving widows and children in the case of fatal injuries. A majority of the premium cost is paid by the UW and a small deduction is made from the employee's pay to conform with the state law.

**Component Unit – WSMLBS Public Facilities District**

The Washington State Major League Baseball Stadium Public Facilities District (PFD) carries commercial general liability insurance with a general aggregate limit of \$2 million and a per occurrence limit of \$1 million. In addition, excess liability coverage is in force at aggregate and per event limits of \$5 million. Business automobile liability coverage limit is at \$1 million per any one accident or loss. Commercial personal property losses are covered up to the replacement value not exceeding \$100,000 with separate coverages for earthquake and flood losses.

The PFD also has purchased employee benefit liability coverage with an aggregate limit of \$3 million and a per employee limit of \$1 million.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 9 - LEASES****Capital Leases**

King County has entered into agreements to purchase buildings, machinery, and equipment through capital lease and installment purchase agreements. Assets acquired and liabilities incurred through such agreements for governmental funds are accounted for in the General Fixed Asset and General Long-term Debt Account Groups. Such assets and liabilities related to proprietary type funds are accounted for within the proprietary funds.

The following is a schedule of fixed assets and outstanding liabilities relating to capital lease agreements and installment purchase contracts as of December 31, 2001:

	FIXED ASSETS		CAPITAL LEASES PAYABLE	
	General Fixed Asset Account Group	Proprietary Funds	General Long-term Debt Account Group	Proprietary Funds
Building	\$ 83,970,000	\$	\$ 83,970,000	\$
Less depreciation				
Sub-total	<u>83,970,000</u>	<u>-0-</u>	<u>83,970,000</u>	<u>-0-</u>
Machinery and equipment	1,036,326	127,924,848	397,923	43,294,354
Less depreciation		(34,032,728)		
Sub-total	<u>1,036,326</u>	<u>93,892,120</u>	<u>397,923</u>	<u>43,294,354</u>
Totals	<u>\$ 85,006,326</u>	<u>\$ 93,892,120</u>	<u>\$ 84,367,923</u>	<u>\$ 43,294,354</u>

The following is a schedule, by year, of future minimum lease payments under capital lease and installment purchase agreements together with the present value of the net minimum lease payments as of December 31, 2001:

	General Long-term Debt Account Group	Proprietary Funds
2002	\$ 5,026,626	\$ 13,205,924
2003	6,322,639	13,082,324
2004	6,248,854	15,323,559
2005	6,197,797	6,720,647
2006	6,198,643	-
Later years	<u>118,904,260</u>	<u>-</u>
Total minimum lease payments	148,898,819	48,332,454
Less: Amount representing interest	<u>64,530,896</u>	<u>5,038,099</u>
Present value of new minimum lease payments	<u>\$ 84,367,923</u>	<u>\$ 43,294,355</u>

**Operating Leases**

The County has numerous operating lease commitments for office space, equipment, radio towers, and railroad tracks. The Information and Telecommunications Services Fund leases computer hardware. These leases include maintenance agreements. Expenditures for the year ended December 31, 2001, for operating lease and rental agreements for office space, equipment, and other operating leases amount to \$21.1 million. The patterns of the future lease

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 9 - CONTINUED**

payment requirements are systematic and rational. Future minimum lease payments for these leases are as follows:

<u>Year</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Other</u>	<u>Total</u>
2002	\$ 9,215,000	\$ 212,000	\$ 702,750	\$ 10,129,750
2003	8,620,500	209,000	543,500	9,373,000
2004	5,500,000	174,500	486,900	6,161,400
2005	4,455,000	81,400	451,800	4,988,200
2006	3,532,000	60,000	424,200	4,016,200
Later years	4,753,000	34,000	587,575	5,374,575

The County currently leases some of its property to various tenants under long-term, renewable and non-cancelable contracts. The King County Airport Enterprise, in particular, leases out most of the buildings and grounds in the Boeing Field/King County International Airport complex to companies and government agencies in the aviation industry. The General Fixed Assets Account Group also includes some land and building space under long-term operating lease.

The following schedule is an analysis of the County's investment in property under long-term, non-cancelable operating leases as of December 31, 2001:

	<u>Buildings</u>	<u>Land</u>
King County Airport Enterprise	\$ 17,043,145	\$ 22,504,350
General Fixed Assets	<u>1,166,542</u>	<u>479,184</u>
Total cost of property under lease	<u>\$ 18,209,687</u>	<u>\$ 22,983,534</u>

The following is a schedule by year of minimum future lease receipts on non-cancelable, operating leases for the next five years based on contract amounts and terms as of December 31, 2001:

<u>Year ending December 31</u>	<u>Enterprises</u>		<u>General</u>	<u>Total</u>
	<u>Airport</u>	<u>Other</u>	<u>Fixed Assets</u>	
2002	\$ 4,476,839	\$ 103,203	\$ 1,615,780	\$ 6,195,822
2003	4,452,412	97,203	1,490,453	6,040,068
2004	4,452,412	78,971	1,366,764	5,898,147
2005	4,452,412	42,040	1,258,200	5,752,652
2006	4,386,738	13,500	1,237,850	5,638,088

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**NOTE 10 – LONG-TERM DEBT**

King County's long-term debt consists of general long-term debt and proprietary type long-term debt. General long-term debt consists of general obligation bonds, other general obligation debt, and special assessment bonds with governmental commitment. Special assessment bonds are guaranteed for payment from resources of the Road Improvement Guaranty Fund if the road improvement district fails to pay.

In 2001, to ensure compliance with applicable Washington State debt limitation statutes (*Revised Code of Washington [RCW]*, Chapter 39.36.020) and bond indenture agreements, King County's general long-term debt was accounted for in five account groups:

- (1) Limited General Obligation Bond Long-term Debt
- (2) Unlimited General Obligation Bond Long-term Debt
- (3) Stadium General Obligation Bond Long-term Debt
- (4) General Obligation Long-term Liabilities
- (5) Road Improvement District Special Assessment Bond Long-term Debt

Proprietary type long-term debt is accounted for in Enterprise Funds and Internal Service Funds. Proprietary type long-term debt consists of: limited general obligation bonds accounted for in the King County International Airport, Solid Waste, Public Transportation, and Water Quality Enterprise Funds; limited general obligation debt for capital leases accounted for in various Enterprise and Internal Service Funds; revenue capital leases accounted for in the Public Transportation Fund; and revenue bonds accounted for in the Water Quality Enterprise.

Three schedules in this Note are reported on a basis that is different from the Combined Balance Sheet (CBS). The Schedule of Long-term Debt, the Computation of Legal Debt Margin, and the Debt Service Requirement to Maturity are reported on a legal basis, which is different from generally accepted accounting principles (GAAP), in order to demonstrate legal compliance. These schedules consider all of King County's debt as of December 31, 2001, which includes a portion of the debt reported on the CBS as Component Unit debt as of June 30, 2001, in accordance with GAAP. (See reconciliations to the CBS presented with the Schedule of Long-term Debt - "General Long-term Debt" subtotal, page 69 and Debt Service Requirement to Maturity - "Total General Obligation Debt" subtotal, page 72.)

KING COUNTY, WASHINGTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 10 - CONTINUED**

SCHEDULE OF LONG-TERM DEBT  
(Page 1 of 5)

	ISSUE DATE	INTEREST RATES	ORIGINAL AMOUNT	OUTSTANDING
I. GENERAL LONG-TERM DEBT				
IA. GENERAL LONG-TERM DEBT - GENERAL OBLIGATIONS				
LIMITED GENERAL OBLIGATION DEBT				
Limited general obligation bonds				
Payable from Limited G.O. Bond Redemption Fund				
1993 Various Purpose Series "A" (Partial)	01/01/93	5.80% to 8.80%	\$ 52,695,900	\$ 4,441,053
1993 Various Purpose Series "B" (Partial)	12/01/93	5.35% to 6.70%	109,435,833	70,340,000
1996 Various Purpose Series "A" (Partial)	02/01/96	5.00% to 5.25%	105,268,054	74,965,000
1996 Refunding Series "B"	03/01/96	4.10% to 4.60%	10,348,276	7,747,221
1997 Baseball Stadium Series "B"	04/01/97	5.75% to 6.63%	151,000,000	121,365,000
1997 Baseball Stadium Parking Facilities(Taxable) Series "C"	04/01/97	7.06% to 7.79%	25,000,000	24,155,000
1997 Baseball Stadium Series "D"	04/17/97	4.60% to 5.75%	150,000,000	137,345,000
1997 Kingdome Debt Service Reimburse (Taxable) Series "E"	12/01/97	6.25% to 6.88%	6,595,000	6,595,000
1997 Kingdome Debt Refunding Series "F"	12/01/97	5.00% to 5.20%	51,525,000	51,525,000
1997 Various Purpose Series "G" (Partial)	12/01/97	4.50% to 5.00%	72,080,000	54,480,000
1999 Various Purpose Series "A" (Partial)	05/01/99	4.00% to 5.25%	85,694,670	61,944,224
2001 Various Purpose (Partial)	11/15/01	3.00% to 5.00%	26,925,000	26,925,000
Total limited general obligation bonds			<u>846,567,733</u>	<u>641,827,498</u>
Limited G.O. capital leases				
Payable from General Fund	Various	Various	6,347,892	5,976,997
Payable from Various Funds - King Street Center's Tenants	06/01/97	4.50% to 5.13%	78,275,000	78,275,000
Payable from Surface Water Management fund	Various	Various	530,790	115,926
Total limited G.O. capital leases			<u>85,153,682</u>	<u>84,367,923</u>
TOTAL LIMITED GENERAL OBLIGATION DEBT			<u>\$ 931,721,415</u>	<u>\$ 726,195,421</u>

KING COUNTY, WASHINGTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 10 - CONTINUED**

SCHEDULE OF LONG-TERM DEBT  
(Page 2 of 5)

	ISSUE DATE	INTEREST RATES	ORIGINAL AMOUNT	OUTSTANDING
IA. GENERAL LONG-TERM DEBT - GENERAL OBLIGATIONS (continued)				
UNLIMITED GENERAL OBLIGATION BONDS				
Payable from Unlimited G.O. Redemption Fund				
1993 Refunding Series "C"	12/01/93	6.00% to 7.25%	\$ 184,405,000	\$ 145,305,000
2000 Refunding Bonds	10/01/00	5.00% to 5.50%	102,740,000	95,445,000
2001 Harborview Medical Center	01/22/01	4.00% to 5.00%	<u>29,130,000</u>	<u>28,370,000</u>
			<u>316,275,000</u>	<u>269,120,000</u>
Bond Redemption Fund				
Payable from Stadium G.O. Bond Redemption Fund				
2000 Refunding Bonds	10/01/00	5.00% to 5.50%	<u>18,880,000</u>	<u>17,640,000</u>
TOTAL UNLIMITED GENERAL OBLIGATION BONDS			<u><u>\$ 335,155,000</u></u>	<u>286,760,000</u>
GENERAL OBLIGATION LIABILITIES				
Compensated absences				50,847,479
Accrued unemployment compensation				<u>1,172,763</u>
TOTAL GENERAL OBLIGATION LIABILITIES				<u>52,020,242</u>
TOTAL GENERAL LONG-TERM DEBT - GENERAL OBLIGATIONS				<u><u>\$ 1,064,975,663</u></u>

KING COUNTY, WASHINGTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 10 - CONTINUED**

SCHEDULE OF LONG-TERM DEBT  
(Page 3 of 5)

	ISSUE DATE	INTEREST RATES	ORIGINAL AMOUNT	OUTSTANDING
IB. SPECIAL ASSESSMENT GENERAL LONG-TERM DEBT				
Special assessment bonds with governmental commitment - bonds payable from Road Improvement Districts S.A. Bond Redemption Fund				
RID 19	05/01/75	-0-	\$ 1,000	\$ 1,000
RID 20	05/01/75	-0-	3,000	1,000
RID 1 Consolidated	03/01/85	9.50% to 10.50%	1,044,271	30,000
RID 2 Consolidated	07/01/86	7.88% to 8.25%	286,192	135,000
TOTAL SPECIAL ASSESSMENT GENERAL LONG-TERM DEBT			<u>1,334,463</u>	<u>167,000</u>
TOTAL GENERAL LONG-TERM DEBT				<u>\$ 1,065,142,663 <sup>(a)</sup></u>
(a) Reconciliation of Total General Long-term Debt with the Combined Balance Sheet, General Long-term Debt Account Group:				
Total General Long-term Debt per Schedule of Long-term Debt			\$ 1,065,142,663	
Less: Harborview Medical Center Limited General Obligation Bonds as of 12/31/01				
1993 Various Purpose Series "A" Partial			(148,000)	
1996 Various Purpose Series "B" Partial			(432,986)	
1997 Various Purpose Series "G" Partial			(7,325,000)	
1999 Various Purpose and Refunding Series "A" Partial			(946,763)	
2001 HMC II Parking Garage			(2,505,000)	
Total Harborview Medical Center Limited General Obligation Bonds as of 12/31/01			<u>(11,357,749)</u>	
Total General Long-term Debt Account Group			<u>\$ 1,053,784,914</u>	

KING COUNTY, WASHINGTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 10 - CONTINUED**

SCHEDULE OF LONG-TERM DEBT  
(Page 4 of 5)

	ISSUE DATE	INTEREST RATES	ORIGINAL AMOUNT	OUTSTANDING
II. PROPRIETARY TYPE LONG-TERM DEBT				
Proprietary type limited general obligation bonds				
Payable from Enterprise Funds				
1993 Various Purpose "A" (Partial)	01/01/93	4.30% to 6.00%	\$ 44,538,267	\$ 20,128,947
1993 Limited Sales Tax Series	06/01/93	4.20% to 5.65%	72,100,000	69,655,000
1994 Limited Tax (Water Quality) Series A	04/01/94	5.80% to 6.40%	170,000,000	6,165,000
1995 Limited Tax (Water Quality) Series A	05/01/95	5.50% to 5.88%	90,000,000	88,635,000
1996 Limited Tax Refunding Series "B" (Partial)	03/01/96	4.10% to 4.75%	12,631,724	11,232,779
1996 Limited Tax G.O. Refunding (Revenue Bonds) Series C	12/15/96	5.00% to 6.25%	130,965,000	110,765,000
1998 LTGO (Public Transport. Sales Tax) Refunding Series A	05/15/98	4.50% to 5.00%	85,715,000	70,855,000
1998 Limited Tax G.O. Refunding (WQ-LTGO & REV.) Series B	09/15/98	4.75% to 5.25%	261,625,000	260,145,000
1999 Limited Tax G.O. (Refunding part) Series A	05/01/99	4.00% to 5.25%	8,720,330	8,610,776
2001 Limited Tax G.O. Various Purpose (Partial)	11/15/01	3.00% to 5.00%	8,580,000	8,580,000
Total payable from Enterprise Funds			<u>884,875,321</u>	<u>654,772,502</u>
Payable from Internal Service Funds				
1996 Various Purpose "A" (Partial)	02/01/96	5.00% to 5.25%	9,969,883	4,315,000
1997 Various Purpose "G" (Partial)	12/01/97	4.50% to 5.00%	1,270,000	840,000
1999 Limited Tax G.O. Various Purpose Series A	05/01/99	4.00% to 5.25%	525,000	420,000
2001 Limited Tax G.O. Various Purpose (Partial)	11/15/01	3.00% to 5.00%	1,050,000	1,050,000
Total payable from Internal Service Funds			<u>12,814,883</u>	<u>6,625,000</u>
Total proprietary type limited G.O. bonds			<u>897,690,204</u>	<u>661,397,502</u>
Proprietary type general obligation capital leases				
Payable from Information and Telecommunication Services Fund	Various	Various	\$ 2,161,229	122,564
Proprietary type general obligation liabilities				
Compensation absences				
Payable from Enterprise Funds				41,168,724
Payable from Internal Service Funds				7,161,267
Total proprietary type general obligation liabilities				<u>\$ 48,329,991</u>

KING COUNTY, WASHINGTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 10 - CONTINUED**

SCHEDULE OF LONG-TERM DEBT  
(Page 5 of 5)

	ISSUE DATE	INTEREST RATES	ORIGINAL AMOUNT	OUTSTANDING
II. PROPRIETARY TYPE LONG-TERM DEBT (continued)				
Proprietary type revenue bonds, capital leases and loans				
Payable from Enterprise Funds				
Sewer and Drainage Bond Issue 472 Special	05/01/75	-0-	\$ 500	\$ 500
1963 Sewer Revenue Bonds Series C	01/01/63	3.40% to 3.60%	15,000,000	6,720,000
1963 Sewer Revenue Bonds Series D	10/01/63	3.50% to 3.70%	15,000,000	7,020,000
1993 Sewer Revenue Bonds Series X	03/01/93	4.75% to 5.50%	136,305,000	130,500,000
1993 Sewer Revenue Bonds Series Y	04/01/93	4.20% to 5.70%	122,455,000	112,535,000
1993 Sewer Revenue Bonds Series Z	07/01/93	4.80% to 5.50%	127,100,000	123,720,000
1999 Sewer Revenue Bonds Series 1	06/01/99	5.25% to 5.50%	80,000,000	80,000,000
1999 Sewer Revenue Bonds Series 2	11/01/99	5.00% to 6.25%	60,000,000	60,000,000
2001 Sewer Revenue Bonds Junior Lien Series A	08/06/01	Variable Rate	50,000,000	50,000,000
2001 Sewer Revenue Bonds Junior Lien Series B	08/06/01	Variable Rate	50,000,000	50,000,000
2001 Sewer Revenue and Refunding Bonds	11/13/01	3.00% to 5.25%	270,060,000	270,060,000
1990, 2000, 2001 State of Washington Loans	Various	5.00%	72,350,972	58,774,376
1996 PublicTransportation Revenue Capital Leases	Various	5.32%	89,301,567	43,171,791
Total proprietary type revenue bonds capital leases and loans			<u>1,087,573,039</u>	<u>992,501,667</u>
TOTAL PROPRIETARY TYPE LONG-TERM DEBT			<u>\$ 1,987,424,472</u>	<u>1,702,351,724</u>
TOTAL LONG-TERM DEBT				<u>\$ 2,767,494,387</u>

KING COUNTY, WASHINGTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 10 - CONTINUED**

DEBT SERVICE REQUIREMENT TO MATURITY AS OF DECEMBER 31, 2001

(PAGE 1 OF 2)

GENERAL OBLIGATION DEBT

YEAR	GENERAL OBLIGATION BONDS				GENERAL OBLIGATION CAPITAL LEASES		TOTAL GENERAL OBLIGATION DEBT	
	GENERAL LONG-TERM		PROPRIETARY TYPE		PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST				
2002	\$ 53,510,268	\$ 48,057,324	\$ 17,669,732	\$ 34,492,493	\$ 854,637	\$ 4,295,588	\$ 72,034,637	\$ 86,845,405
2003	55,611,013	45,336,175	17,623,987	33,568,611	2,099,411	4,223,226	75,334,411	83,128,012
2004	56,348,796	42,626,809	18,591,204	32,712,379	2,126,439	4,122,416	77,066,439	79,461,604
2005	59,518,990	39,873,440	20,181,010	31,690,186	2,175,000	4,022,798	81,875,000	75,586,424
2006	62,998,472	36,896,891	16,646,528	30,784,012	2,280,000	3,918,644	81,925,000	71,599,547
2007	67,333,041	33,694,499	16,031,959	29,984,269	2,390,000	3,808,305	85,755,000	67,487,073
2008	59,474,034	30,425,143	21,485,966	28,939,161	2,510,000	3,690,258	83,470,000	63,054,562
2009	61,934,184	27,328,598	13,490,816	28,084,821	2,635,000	3,563,671	78,060,000	58,977,090
2010	51,445,562	24,395,302	20,684,438	27,235,105	2,770,000	3,430,489	74,900,000	55,060,896
2011	53,670,492	21,642,411	13,214,508	26,392,500	2,910,000	3,288,314	69,795,000	51,323,225
2012	58,152,646	18,655,033	21,072,354	25,520,843	3,060,000	3,138,744	82,285,000	47,314,620
2013	61,240,000	15,491,160	13,200,000	24,503,757	3,215,000	2,981,097	77,655,000	42,976,014
2014	67,630,000	12,125,168	13,105,000	23,616,763	3,390,000	2,813,122	84,125,000	38,555,053
2015-2019	136,885,000	19,015,367	75,630,000	103,712,413	19,790,000	11,204,457	232,305,000	133,932,237
2020-2024	22,835,000	3,907,125	124,010,000	78,297,346	23,005,000	5,581,932	169,850,000	87,786,403
2025-2029			95,330,000	53,485,044	9,280,000	448,876	104,610,000	53,933,920
2030-2035			143,430,000	23,230,891			143,430,000	23,230,891
	<u>\$ 928,587,498</u> <sup>(a)</sup>	<u>\$ 419,470,445</u>	<u>\$ 661,397,502</u> <sup>(a)</sup>	<u>\$ 636,250,594</u>	<u>\$ 84,490,487</u>	<u>\$ 64,531,937</u>	<u>\$ 1,674,475,487</u>	<u>\$ 1,120,252,976</u>

(a) Reconciliation of total General Obligation Bonds as reported on the Schedule of Debt Service Requirement to Maturity (DSRM) and as reported on the Combined Balance Sheet (CBS):

General Obligation Bonds - General long-term	\$ 928,587,498	General obligation bonds payable - Current	\$ 6,019,732
General Obligation Bonds - Proprietary type	661,397,502	General obligation bonds payable - Restricted	11,650,000
Harborview Medical Center General Obligation Bonds 12-31-2001 (See Schedule of Long-term Debt page 3 of 5-Reconciliations)	(11,357,749)	General obligation bonds payable - Long-term	1,560,957,519
Total General Obligation Bonds (DSRM)	<u>\$ 1,578,627,251</u>	Total General Obligation Bonds (CBS)	<u>\$ 1,578,627,251</u>

KING COUNTY, WASHINGTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 10 - CONTINUED**

DEBT SERVICE REQUIREMENT TO MATURITY AS OF DECEMBER 31, 2001

(PAGE 2 OF 2)

LONG-TERM DEBT SUMMARY

YEAR	TOTAL GENERAL OBLIGATION DEBT		GENERAL LONG-TERM DEBT SPECIAL ASSESSMENT BONDS (WITH GOVERNMENTAL COMMITMENT)		PROPRIETARY TYPE REVENUE BONDS CAPITAL LEASES AND LOANS		TOTAL LONG-TERM DEBT (EXCLUDING GENERAL OBLIGATION LONG-TERM LIABILITIES)	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2002	\$ 72,034,637	\$ 86,845,405	\$ 32,000	\$ 14,212	\$ 37,589,367	\$ 40,573,814	\$ 109,656,004	\$ 127,433,431
2003	75,334,411	83,128,012		11,063	32,086,011	44,401,047	107,420,422	127,540,122
2004	77,066,439	79,461,604		11,062	36,011,555	42,757,680	113,077,994	122,230,346
2005	81,875,000	75,586,424		11,063	28,767,533	40,835,948	110,642,533	116,433,435
2006	81,925,000	71,599,547		11,062	25,154,800	39,481,985	107,079,800	111,092,594
2007	85,755,000	67,487,073		11,063	27,043,729	38,202,301	112,798,729	105,700,437
2008	83,470,000	63,054,562	135,000	11,062	28,394,851	36,816,591	111,999,851	99,882,215
2009	78,060,000	58,977,090			29,838,527	35,312,607	107,898,527	94,289,697
2010	74,900,000	55,060,896			31,390,134	33,688,229	106,290,134	88,749,125
2011	69,795,000	51,323,225			33,095,067	31,950,068	102,890,067	83,273,293
2012	82,285,000	47,314,620			34,893,743	30,124,031	117,178,743	77,438,651
2013	77,655,000	42,976,014			36,766,597	28,193,991	114,421,597	71,170,005
2014	84,125,000	38,555,053			39,499,091	26,129,204	123,624,091	64,684,257
2015-2019	232,305,000	133,932,237			131,049,747	103,218,590	363,354,747	237,150,827
2020-2024	169,850,000	87,786,403			95,560,915	77,652,077	265,410,915	165,438,480
2025-2029	104,610,000	53,933,920			123,685,000	49,053,621	228,295,000	102,987,541
2030-2035	143,430,000	23,230,891			221,675,000	16,757,667	365,105,000	39,988,558
TOTAL	<u>\$ 1,674,475,487</u>	<u>\$ 1,120,252,976</u>	<u>\$ 167,000</u>	<u>\$ 80,587</u>	<u>\$ 992,501,667</u>	<u>\$ 715,149,451</u>	<u>\$ 2,667,144,154</u>	<u>\$ 1,835,483,014</u>

KING COUNTY, WASHINGTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 10 - CONTINUED**

GENERAL LONG-TERM DEBT - BALANCE SHEET

	TOTAL	LIMITED G.O. LONG-TERM DEBT	UNLIMITED G.O. BOND LONG-TERM DEBT	STADIUM G.O. BOND LONG-TERM DEBT	COMPENSATED ABSENCES AND UNEMPLOYMENT COMPENSATION LIABILITY	ROAD IMPROVEMENT DISTRICTS S. A. BOND LONG-TERM DEBT
<b>ASSETS</b>						
Amount available in						
Debt Service Funds	\$ 39,382,561	\$ 28,222,202	\$ 5,186,405	\$ 2,655,122	\$	\$ 3,318,832
Amounts to be provided						
for retirement of :						
Bonds	878,014,188	602,247,547	263,933,595	14,984,878		(3,151,832)
Capital leases	84,367,923	84,367,923				
Other general long-term						
liabilities payable	52,020,242				52,020,242	
Total amounts to be provided	1,014,402,353	686,615,470	263,933,595	14,984,878	52,020,242	(3,151,832)
<b>TOTAL ASSETS</b>	<b>\$ 1,053,784,914</b>	<b>\$ 714,837,672</b>	<b>\$ 269,120,000</b>	<b>\$ 17,640,000</b>	<b>\$ 52,020,242</b>	<b>\$ 167,000</b>
<b>LIABILITIES</b>						
General obligation						
bonds payable	\$ 917,229,749	\$ 630,469,749	\$ 269,120,000	\$ 17,640,000	\$	\$
Special assessment bonds with						
governmental commitment	167,000					167,000
General Obligation Capital leases	84,367,923	84,367,923				
Compensated absences payable	50,847,479				50,847,479	
Unemployment compensation payable	1,172,763				1,172,763	
<b>TOTAL LIABILITIES</b>	<b>\$ 1,053,784,914</b>	<b>\$ 714,837,672</b>	<b>\$ 269,120,000</b>	<b>\$ 17,640,000</b>	<b>\$ 52,020,242</b>	<b>\$ 167,000</b>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 10 - CONTINUED**

CHANGES IN GENERAL LONG-TERM DEBT  
FOR THE YEAR ENDED DECEMBER 31, 2001

	BALANCE 01/01/01	INCREASE	DECREASE	BALANCE 12/31/01
Limited G.O. bonds	\$ 648,233,662	\$ 24,420,000	\$ 42,183,913	\$ 630,469,749
Limited G.O. Capital leases	84,599,392	170,674	402,143	84,367,923
Unlimited G.O. bonds	262,280,000	29,130,000	22,290,000	269,120,000
Stadium G.O. bonds	20,730,000		3,090,000	17,640,000
Compensated absences liability	47,279,048	6,253,957	2,685,526	50,847,479
Unemployment compensation liability	1,051,155	121,608		1,172,763
Special assessment bonds with governmental commitment	197,000		30,000	167,000
<b>TOTALS</b>	<b>\$ 1,064,370,257</b>	<b>\$ 60,096,239</b>	<b>\$ 70,681,582</b>	<b>\$ 1,053,784,914</b>

Reconciliation of increase in general long-term debt with proceeds of general long-term debt per Combined Statement of Revenues, Expenditures, and Changes in Fund Balances All-Governmental Fund Types:

Increase in general long-term debt	\$ 60,096,239
Add: Issue premium and underwriter discount	74,294
Less: Unlimited tax general obligation bonds – 2001 Harborview Medical Center, proceeds deposited in Component Unit - HMC	(29,130,000)
Less: Increase in Compensated absences liability and capital leases	(6,546,239)
Proceeds of general long-term debt – bonds	<u>\$ 24,494,294</u>

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

**NOTE 10 - CONTINUED****Computation of Legal Debt Margin**

Under Washington state law (RCW 39.36.020), a county may incur general obligation debt for general county purposes in an amount not to exceed 2 1/2 percent of the assessed value of all taxable property within the county. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people, and any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last State general election and, of those voting, 60 percent must be in the affirmative. The County Council may by resolution authorize the issuance of limited tax general obligation debt in an amount up to 1 1/2 percent of assessed value of property within the County for general county purposes and 3/4 percent for metropolitan functions, but the total of limited tax general obligation debt for general county purposes and metropolitan functions should not exceed 1 1/2 percent of assessed value. No combination of limited and unlimited tax debt, for general county purposes, and no combination of limited and unlimited tax debt, for metropolitan functions, may exceed 2 1/2 percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected within the \$1.80 per \$1,000 of assessed value operating levy.

COMPUTATION OF LEGAL DEBT MARGIN  
 FOR THE YEAR ENDED DECEMBER 31, 2001

2001 ASSESSED VALUE	\$ 210,996,600,903
Debt limit of limited tax (LT) general obligations for metropolitan functions	
3/4 % of assessed value	1,582,474,507
Less: Net LT general obligation indebtedness for metropolitan functions	(626,610,284)
LT GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	<u>\$ 955,864,223</u>
Debt limit of LI general obligations for general county purposes and metropolitan functions - 1 1/2 % of assessed value	\$ 3,164,949,014
Less: Net LT general obligation indebtedness for general county purposes	(809,118,904)
Net LT general obligation indebtedness for metropolitan functions	(626,610,284)
Net total LT general obligation indebtedness for general county purposes and metropolitan functions	(1,435,729,188)
LT GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES AND METROPOLITAN FUNCTIONS	<u>\$ 1,729,219,826</u>
Debt limit of total general obligations for metropolitan functions	
2 1/2% of assessed value	\$ 5,274,915,023
Less: Net total general obligation indebtedness for metropolitan functions	(626,610,284)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	<u>\$ 4,648,304,739</u>
Debt limit of total general obligations for general county purposes	
2 1/2% of assessed value	\$ 5,274,915,023
Less: Net unlimited tax general obligation debt for general county purposes	(277,703,445)
Net LT general obligation indebtedness for general county purposes	(809,118,904)
Net total general obligation indebtedness for general county purposes	(1,086,822,349)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES	<u>\$ 4,188,092,674</u>

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 10 – CONTINUED****Defeating General Obligation Bond Issues – 2001**

Limited Tax General Obligation Bonds Defeasance 2001 – On December 12, 2001, the County completed the defeasance of \$10,175,000 of 1997 Series B bonds using the excess proceeds from special taxes and revenues. The advance defeasance resulted in the recognition of an economic gain (the difference between the present values of the new and old debt service payments) of \$2,647,232 for the year ended December 31, 2001, and obtained an accounting gain (the difference between prior and present debt service payments) of \$3,367,925.

**Refunding Water Quality Revenue Bond Issues – 2001**

Sewer Revenue and Refunding Bonds, 2001 – On November 13, 2001, the County issued \$149,665,000 of Sewer Revenue Bonds with an average interest rate of 5.03 percent to advance refund \$147,430,000 consisting of parts of seven issues of Revenue Bonds with an average interest rate of 6.16 percent. The net proceeds were used to purchase U.S. government securities which were deposited with an escrow agent to provide for all future debt service payments on the Revenue Bonds Series 1964E, 1964F, 1965G, 1965H, 1966I, 1969J and 1992V bonds. As a result, the series 1964E, 1964F, 1965G, 1965H, 1966I, 1969J and 1992V bonds are considered to be defeased and the liability for those bonds has been removed from the Proprietary Type Long-term Debt.

The County advance refunded the Revenue Bond Series 1964E and F, 1965G and H, 1966I, 1969J and 1992V, to reduce its aggregate debt service payments by \$29,934,883 over the life of the bonds and to obtain an economic gain (difference between the present values of the new and old debt service payments) of \$15,711,574.

**Refunded Bonds**

King County has a total of 21 outstanding refunded and defeased bond issues of limited and unlimited tax general obligation bonds and revenue bonds which were originally reported in the General Long-term Debt Account Group and Proprietary Fund Types. The payment of principal and interest on these bond issues is the responsibility of the escrow agent - U.S. Bank of Washington.

The following is a schedule of refunded bonds outstanding as of December 31, 2001.

	<u>General LTD Account Group</u>	<u>Proprietary Fund Type</u>
Limited Tax G. O. Refunded Bonds	\$ 79,404,000	\$ 160,321,000
Unlimited Tax G.O. Refunded Bonds	48,990,000	
Revenue Bonds		252,624,000
Total	<u>\$ 128,394,000</u>	<u>\$ 412,945,000</u>

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 10 - CONTINUED**

**Future Borrowing Plans**

In 2002 the County anticipates the issuance of approximately \$40 million of limited tax general obligation bonds to provide financing for road improvements. The County plans to issue approximately \$70 million more of limited tax bonds to finance road improvements over the next four years.

The County plans to issue \$80 million of new debt secured by sewer revenues in 2002 to provide funding for its Wastewater Treatment Division's capital improvement programs. The County anticipates the need to issue approximately \$100 million of new debt annually during the next five years to meet the continuing capital needs of the Wastewater Treatment Division.

The remaining \$164 million of the voter-approved \$193 million of unlimited tax general obligation bonds to finance seismic improvements to the Harborview Medical Center will be issued in two series over the next five years.

Finally, the County has identified other projects with an estimated financing need of \$130 million to be funded by the sale of limited tax general obligation bonds over the next several years. Interim financing for some of these projects has already been provided by the sale of Bond Anticipation Notes which will be rolled over until the limited tax general obligation bonds are issued.

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NOTES TO FINANCIAL STATEMENTS  
December 31, 2001

**NOTE 11 - INTERFUND ACCOUNT BALANCES**

SCHEDULE OF INTERFUND ACCOUNT BALANCES  
SUMMARIZED BY COMBINED BALANCE SHEET CLASSIFICATION  
AS OF DECEMBER 31, 2001

COMBINED BALANCE SHEET CLASSIFICATION	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS	INTERFUND SHORT-TERM LOANS RECEIVABLE	INTERFUND SHORT-TERM LOANS PAYABLE	ADVANCES TO OTHER FUNDS	ADVANCES FROM OTHER FUNDS
Current assets	\$ 82,875,488	\$	\$ 9,637,732	\$	\$	\$
Restricted assets	1,614,895					
Noncurrent assets					1,206,343	
Current liabilities		81,656,709		9,637,732		
Liabilities payable from restricted assets		2,833,674				
Long-term liabilities						1,206,343
ACCOUNT TOTALS	<u>\$ 84,490,383</u>	<u>\$ 84,490,383</u>	<u>\$ 9,637,732</u>	<u>\$ 9,637,732</u>	<u>\$ 1,206,343</u>	<u>\$ 1,206,343</u>

SCHEDULE OF INTERFUND ACCOUNT BALANCES <sup>(a)</sup>  
AS OF DECEMBER 31, 2001  
(PAGE 1 OF 2)

FUND	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS	INTERFUND SHORT-TERM LOANS RECEIVABLE	INTERFUND SHORT-TERM LOANS PAYABLE	ADVANCES TO OTHER FUNDS	ADVANCES FROM OTHER FUNDS
General Fund	\$ 9,645,728	\$ 4,609,292	\$ 9,434,141	\$	\$ 300,000	\$
Special Revenue Funds						
Alcoholism & Substance Abuse Services	1,099,069	2,334,551				
Arts & Cultural Education Program	1,312,442	34,645				
Community Development Block Grant	152,801	382,246				
County Road	3,532,054	19,356,296				
Criminal Justice	620,307	106,562				
Development & Environment Services	306,937	158,582				
Developmental Disabilities		1,378,622				
Flood Control Zone Districts		133,781				
Local Hazardous Waste		3,968,091				
Miscellaneous Grants	297,986	1,464,561				300,000
Public Health Pooling	4,492,497	1,230,047				
River Improvement	211,031	102,390				
Surface Water Management	6,006,573	615,420		722,622		
Veterans' Relief	156	110,819				
Other Special Revenue Funds	155,331	281,746				
Debt Service Funds						
Road Improvement Districts S.A.						
Debt Redemption				84,900		
Road Improvement Guaranty Fund			203,591			
Sub-total	<u>27,832,912</u>	<u>36,267,651</u>	<u>9,637,732</u>	<u>807,522</u>	<u>300,000</u>	<u>300,000</u>

(a) Multiple funds with individual account balances of less than \$100,000 are reported in the classification "Other" by fund type.

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2001

### NOTE 11 - CONTINUED

#### SCHEDULE OF INTERFUND ACCOUNT BALANCES (a) AS OF DECEMBER 31, 2001 (PAGE 2 OF 2)

FUND	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS	INTERFUND SHORT-TERM LOANS RECEIVABLE	INTERFUND SHORT-TERM LOANS PAYABLE	ADVANCES TO OTHER FUNDS	ADVANCES FROM OTHER FUNDS
Capital Projects Funds						
Arts Construction	\$	\$ 1,300,000	\$	\$	\$	\$
Building Construction & Improvement		2,068,661				
Building Repair & Replacement	14,460,264	13,795,955				
Cable Communication	119,178	462,671				
Conservation Futures Levy	254,200	641,925				
County Road Construction	21,403,236	3,508,510				
Housing Opportunity Acquisition	1,206,062	54,877				
Long-term Lease	26,958	3,386		352,348		
Major Maintenance Reserve	5,776,575	316,995				
Open Space Acquisition & Improvement	647,374	397,561				
Park Facilities Rehabilitation	297,324	258,008				
Parks Recreation & Open Space	930,592	1,953,467		984,293		906,343
Real Estate Excise Tax Construction	787,875	480,194				
Regional Justice Center Construction		1,826,878				
Renton Maintenance		138,031				
Road Improvement Districts CIP				118,691		
Surface Water Management CIP	117,653	576,410				
Technology 1997 Bonds	405,989	620,285				
Transfer of Development Credit	63,571	4,464		1,551,775		
Working Forest	437,867					
Other Capital Project Funds	88,088	215,468				
Enterprise Funds						
I-Net	63,570	105,653				
King County International Airport	60	2,170,729				
Public Transportation	1,606,794	3,078,141			906,343	
Radio Communications	143,384					
Solid Waste	1,197,967	561,555				
Water Quality		6,259,005				
Internal Service Funds						
Construction & Facilities Management	604,139	16,089				
Employee Benefits Program	1,200,051					
Financial Management Services	688,116	464,184				
Information Resource Management		122,824				
Information & Telecommunications	737,145	104,722				
Insurance	448,708	168				
Motor Pool Equipment Rental	87,150	1,557,298				
Printing/Graphic Arts Services	153,907	2,115				
Public Works Equipment Rental	546,337	20,737				
Safety and Workers' Compensation	372,316	219,780				
Other Internal Service Funds	21,950	155,965				
Trust and Agency Funds	1,763,071	4,760,021		5,823,103		
Sub-total	\$ 56,657,471	\$ 48,222,732	\$	\$ 8,830,210	\$ 906,343	\$ 906,343
Page 1 sub-total	27,832,912	36,267,651	9,637,732	807,522	300,000	300,000
Total - Primary Government	\$ 84,490,383	\$ 84,490,383	\$ 9,637,732	\$ 9,637,732	\$ 1,206,343	\$ 1,206,343
Component Unit - Harborview Medical Center						
Due From Component Unit			Due To Component Unit			
Current Assets		\$ 7,203,087	Current Liabilities			\$ 7,122,070
Restricted Assets		6,464,383	Liabilities Payable From Restricted Assets			6,545,400
Total - Due From Component Unit		\$ 13,667,470	Total - Due To Component Unit			\$ 13,667,470

(a) Multiple funds with individual account balances of less than \$100,000 are reported in the classification "Other" by fund type.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 12 – RESERVES, DESIGNATIONS, AND CHANGES IN EQUITY**

**Reserves and Designations**

King County records two general types of reserves. One type indicates that a portion of the fund balance is legally segregated for a specific future use and the second type of reserve indicates that a portion of the fund balance is not available for appropriation. Designated fund balances represent tentative plans (including those plans prescribed by local ordinance) for future use of financial resources.

Following is a list of all reserves and designations used by King County and a description of each:

**Reserved Fund Balances**

	TOTAL (MEMO ONLY)	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	TRUST & AGENCY
Reserved for:						
Inventory	\$ 2,152,606	\$ 79,031	\$ 2,073,575	\$	\$	\$
Prepayments	205,404	72,137			133,267	
Encumbrances	56,871,895	5,425,929	21,949,667		29,496,299	
Advances to other funds	300,000	300,000				
Crime victim compensation program	901,887	901,887				
Drug enforcement program	293,312	293,312				
Antiprofitteering program	395,416	395,416				
Dispute resolution	32,210	32,210				
<i>Pro se</i> facilitator	13,844	13,844				
Inmate welfare	1,713,595	1,713,595				
Laptop replacement	668,559	668,559				
Criminal justice	2,661,862	2,661,862				
Managed care risk pool	7,819,070		7,819,070			
Arts and cultural development endowment	2,418,515		2,418,515			
PFD stadium bond debt service	12,491,773			12,491,773		
PFD stadium bond debt service - escrow	4,694,097			4,694,097		
Reserved for assets held in trust for pool / individual investment account participants	<u>2,396,173,120</u>					<u>2,396,173,120</u>
Total reserved fund balances	<u>\$2,489,807,165</u>	<u>\$12,557,782</u>	<u>\$34,260,827</u>	<u>\$ 17,185,870</u>	<u>\$ 29,629,566</u>	<u>\$2,396,173,120</u>

Reserved for inventory – This account is used to segregate a portion of fund balance in the amount of the inventory of supplies carried as an asset; it represents resources that are not available and spendable for the fund's current operations.

Reserved for prepayments – This account is used to segregate a portion of fund balance equal to the asset prepayments; it does not represent available, spendable resources for the fund's current operations.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**NOTE 12 - CONTINUED**

Reserved for encumbrances – This account is used for commitments made for goods or services before year-end that have not been delivered or completed as of year-end. The budget for these commitments will be reestablished in the new year without being reappropriated.

Reserved for advances to other funds – This account is used to segregate a portion of fund balance for advances to other funds, the noncurrent portion of interfund loans receivable, to indicate that they do not constitute available financial resources and, therefore, are not available for appropriation.

Reserved for Crime Victim Compensation Program – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted to the Crime Victim Compensation Program and are not spendable resources for other expenditures.

Reserved for drug enforcement program – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purposes of enhancing enforcement of the Uniform Controlled Substances Act, *Revised Code of Washington (RCW)*, Chapter 69.50, or other laws regulating controlled substances, including training, equipment, and operational expenses.

Reserved for antiprofitteering program – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purposes of the investigation and prosecution of any offense included in the definition of criminal profiteering set forth in *RCW* 9A.82.

Reserved for dispute resolution centers – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding dispute resolution centers.

Reserved for *pro se* facilitators – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding a courthouse facilitator program to provide basic services to *pro se* litigants in family law cases.

Reserved for inmate welfare – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of the welfare of inmates held by the Department of Adult and Juvenile Detention.

Reserved for laptop replacement – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of replacing laptop computers used by police officers.

Reserved for criminal justice – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for criminal justice purposes.

Reserved for managed care risk pool – Seattle-King County Department of Public Health is affiliated with Blue Cross/Carenet and the Community Health Plan of Washington (CHPW) in order to provide care to approximately 8,000 Healthy Options Managed Medicaid enrollees. For CHPW enrollees, the Health Department shares a portion of the risk for the continuum of

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 12 - CONTINUED**

care to those individuals and families. In addition to the risk of providing primary care within a fixed capitation (a fixed payment per enrollee per month, independent of the primary care utilization), the Health Department is also at risk for provision of specialty services and hospital care. Specifically, the Health Department is responsible for a portion of losses not covered by the specialty and hospital pools held by the plans or by reinsurance for extraordinary costs. In order to plan for those potential losses, maintenance of a risk reserve pool is required.

Reserved for arts and cultural development endowment – This account is being used, pending the establishment of a Permanent Fund, to segregate the Hotel/Motel tax revenues distributed to the Arts and Cultural Development Fund pursuant to *RCW 67.28.180.3(e)*, for the purpose of establishing an endowment.

Reserved for PFD Stadium bond debt service – This account is used to segregate the revenues collected by the County that are earmarked for future debt service payments on the 1997A-1, 1997B, and 1997D tax exempt Baseball Stadium bond issues.

Reserved for PFD Stadium bond debt service – escrow – This account is used to segregate the revenues collected by the County that are earmarked for future debt service payments on the 1997A-2 and 1997C taxable Baseball Stadium bond issues.

Reserved for assets held in trust for pool / individual investment account participants – This account is used to segregate Investment Trust Fund net assets held for legally separate entities such as special districts and public authorities other than component units.

**Designated Fund Balances**

	TOTAL (MEMO ONLY)	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
Designated for:					
Equipment replacement	\$ 4,619,112	\$	\$ 4,619,112	\$	\$
Capital projects	2,813,692	2,431,314	382,378		
FEMA match	97,607		97,607		
Reappropriation	12,574,676	2,275,848	10,298,828		
Net unrealized gains	7,796,550	3,566,200	1,713,847	283,024	2,233,479
Contingencies	15,000,000	15,000,000			
Children and family services program	130,046	130,046			
Total designated fund balances	<u>\$ 43,031,683</u>	<u>\$ 23,403,408</u>	<u>\$ 17,111,772</u>	<u>\$ 283,024</u>	<u>\$ 2,233,479</u>

Designated for equipment replacement – This account is used to indicate that a portion of fund balance has been earmarked for the replacement of equipment.

Designated for capital projects – This account is used to identify a portion of fund balance in General and Special Revenue Funds equal to the budget for capital projects not expended

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 12 - CONTINUED**

and expected to be reappropriated for the coming year. The projects may be decreased, increased, and changed in scope by the County Council in their budget deliberations.

Designated for FEMA match – This account is used to identify a portion of fund balance in the Flood Control Zone Districts Fund that has been designated for future use as a local match for federal and state grants in the event of a federally-declared flood disaster.

Designated for reappropriation – This account is used at year-end for lapsed appropriations for which special requests have been made to obtain reappropriation in the coming year.

Designated for net unrealized gains – This account is used to segregate the portion of fund balance representing unrealized gains and losses on investment holdings. GASB Statement No. 31 now requires governments to report investments at fair values and to charge investment income for the change in fair value of investments at the end of the year.

Designated for contingencies – This account is used to segregate a portion of fund balance to indicate that resources have been earmarked by County ordinance for the following:  
(1) maintenance of essential County services in the event that General Fund revenue collections in a given fiscal year are less than 97 percent of adopted estimated revenues;  
(2) payment of legal settlements relating to the collection of past General Fund revenues;  
(3) catastrophic losses in excess of the Insurance Fund reserve and all other fund balances;  
and (4) requests for priority capital maintenance projects if and when the contingencies reserve exceeds \$15 million.

Designated for Children and Family Services Programs – This account is used to segregate a portion of fund balance to indicate that resources have been earmarked by County ordinance to provide children and family services to the residents of King County.

**Reserved Retained Earnings**

Public Transportation Enterprise – Sales tax subsidies are initially deposited to the Sales Tax Revenues Receiving Fund. One-fourth of the sales tax subsidy is designated by bond resolution for capital projects and debt service. Funds required for debt service are distributed from the Receiving Fund to the Bond Fund and the remainder is distributed to the Construction Fund. Amounts representing cumulative sales tax revenues not yet used for capital projects, less required debt service reserves, are reserved for capital projects. The balance of the reserve at December 31, 2001, is \$48,161,173.

Water Quality Enterprise – The following reserves have been established pursuant to bond resolutions:

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 12 - CONTINUED**

Required Balance, bond reserve account	\$ 61,587,198
Term Bond Reserve Account	13,775,534
Contingency Reserve Account	2,000,000
Operating Reserve Account	4,139,000
Betterment Reserve Account	5,900,811
Debt Service Account (parity bonds only)	44,747,341
Less current Principal and Interest Payable (parity and parity lien bonds)	<u>(46,186,317)</u>
Reserved Retained Earnings	<u><u>\$ 85,963,567</u></u>

Reserved for Harborview Medical Center (HMC) capital construction – This account is used to segregate the retained earnings of HMC's Construction Fund which is restricted to improvements and additions to HMC buildings and equipment, including construction of the new trauma center amounting to \$32,431,016 at June 30, 2001.

Reserved for HMC special purpose – This account is used to segregate retained earnings of HMC's Special Purpose Funds which consist of restricted donations, gifts and bequests received from outside sources intended for specific purposes amounting to \$23,964,157 at June 30, 2001.

**Management Plans for Internal Service Fund Retained Earnings**

The following Internal Service Funds have retained earnings that have been earmarked by County management for a specific future use as of December 31, 2001:

Information and Telecommunication Services Fund – Data Processing Sub-fund – \$1,015,566 has been earmarked by management for the replacement of electronic data processing equipment.

Information and Telecommunications Services Fund – Telecommunications Sub-fund – \$890,000 has been earmarked by management for the replacement of telecommunications equipment.

Insurance Fund – \$14,747,545 has been earmarked for catastrophic losses. The catastrophic loss reserve will be used to respond to large, non-recurring losses exceeding \$1 million per incident.

Motor Pool Equipment Rental Fund – \$8,358,596 has been earmarked by management for the replacement of rental equipment.

Printing/Graphic Arts Services Fund – \$100,000 has been earmarked by management for the replacement of printing equipment.

Public Works Equipment Rental Fund – \$8,923,032 has been earmarked by management for the replacement of rental equipment.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 12 - CONTINUED**

Transit Non-Revenue Vehicle (NRV) Equipment Rental Fund – \$5,417,441 has been earmarked by management for the replacement of rental equipment.

Wastewater Equipment Rental Fund – \$2,865,286 has been earmarked by management for the replacement of rental equipment.

**Changes in Equity****Proprietary Fund Changes in Contributions**

The following tables display the changes during 2001 in the balances in the Contributions account in the Enterprise Funds. There were no changes in Contributions in the Internal Service Funds.

	ENTERPRISE FUNDS CONTRIBUTIONS			
	BALANCE 01/01/01	INCREASES	DECREASES	BALANCE 12/31/01
<u>King County International Airport</u>				
Contributions from other governments	\$ 25,440,620	\$	\$	\$ 25,440,620
Contributions from governmental unit	4,417,682			4,417,682
Contributions - other	74,280			74,280
Total King County International Airport	<u>29,932,582</u>	<u>-0-</u>	<u>-0-</u>	<u>29,932,582</u>
<u>Public Transportation</u>				
Contributions from other governments	<u>444,116,107</u>	<u>-0-</u>	<u>(34,013,163)</u>	<u>410,102,944</u>
<u>Radio Communications Services</u>				
Contributions from other governments	<u>19,095,763</u>	<u>-0-</u>	<u>-0-</u>	<u>19,095,763</u>
<u>Solid Waste</u>				
Contributions from other governments	14,895,250			14,895,250
Contributions from governmental unit	2,531,873			2,531,873
Contributions - other	9,946			9,946
Total Solid Waste	<u>17,437,069</u>	<u>-0-</u>	<u>-0-</u>	<u>17,437,069</u>
<u>Stadium</u>				
Contributions from other governments	956,227			956,227
Contributions from governmental unit	122,355,620			122,355,620
Contributions - other	241,128			241,128
Total Stadium	<u>123,552,975</u>	<u>-0-</u>	<u>-0-</u>	<u>123,552,975</u>
<u>Water Quality</u>				
Contributions from other governments	293,829,005		(21,838,066)	271,990,939
Contribution from governmental unit	407,901			407,901
Total Water Quality	<u>294,236,906</u>	<u>-0-</u>	<u>(21,838,066)</u>	<u>272,398,840</u>
TOTAL ENTERPRISE CONTRIBUTIONS	<u>\$ 928,371,402</u>	<u>\$ -0-</u>	<u>\$ (55,851,229)</u>	<u>\$ 872,520,173</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 12 - CONTINUED**

Public Transportation Contribution Activity – The balance was reduced by \$34,013,163 of amortization of grant-funded assets.

Water Quality Contribution Activity – The balance was reduced by \$21,838,066 of amortization of grant-funded assets.

**Restatements of Beginning Balances****General Fund**

In 1999 expenditures related to some manual warrants issued by the Department of Finance Accounts Payable section were not recorded in the accounting system. This error was discovered in 2001 and the beginning fund balance has been restated. The appropriation units impacted by these errors had sufficient budget balance available in 1999 to cover these expenditures had the expenditures been charged against the appropriation in 1999.

	General Fund
General Fund	
Fund Balance – December 31, 2000	\$ 80,357,477
Understatement of 1999 Expenditures	
Superior Court	(205)
District Court	(6,000)
Adult and Juvenile Detention	(537)
Public Defense	<u>(914,077)</u>
Fund Balance – January 1, 2001 (RESTATED)	<u>\$ 79,436,658</u>

**Internal Service Fund/Capital Project Fund**

The prior period adjustment of \$178,591 is to correct an error in 2000 where contract expenditures budgeted under the Financial Management Services internal service fund were incorrectly charged to the Technology 1997 Bond capital projects fund. This adjustment results in the following restatement of beginning fund balance and retained earnings:

Fund/Fund group	Fund Balance/ Retained Earnings Dec. 31, 2000	Prior Period Adjustment	Fund Balance/ Retained Earnings Jan. 1, 2001
Financial Management Services Fund	\$ (19,795)	\$ (178,591)	\$ (198,386)
Internal Service fund group	34,786,484	(178,591)	34,607,893
Technology 1997 CIP Bond Fund	3,330,404	178,591	3,508,995
CIP fund group	138,644,767	178,591	138,823,358

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 12 - CONTINUED**Enterprise Funds

In 2000 the capitalization of certain expenditures in the Radio Communications Services Enterprise Fund were duplicated overstating Work in Progress and Retained earnings and understating Operating expenses by \$506,952. In 2001 the Work in Progress balance has been restated to the correct balance resulting in the following restatement of beginning retained earnings:

	Enterprise Funds	Radio Communications Services
Retained earnings (deficit) - December 31, 2000	\$ 665,411,474	\$ (1,467,551)
2000 Capitalization duplication	<u>(506,952)</u>	<u>(506,952)</u>
Retained earnings (deficit) – January 1, 2001 (RESTATED)	<u>\$ 664,904,522</u>	<u>\$ (1,974,503)</u>

**Component Unit – Changes in Contributions**

Harborview Medical Center – A contribution is reported for the net interest paid by the County on HMC construction bonds that is recognized in HMC's financial statements as capitalized interest. The life-to-date amount at June 30, 2001, is \$8,080,486 (see below, "Component Unit – Restatement of Beginning Balances," for changes in the contribution amount due to the prior year adjustment).

Washington State Major League Baseball Stadium Public Facilities District – The balance of contributions was reduced by \$12,219,026 for amortization of contribution funded assets and \$659,947 for refund of contribution to Seattle Mariners.

**Component Unit – Restatement of Beginning Balances**

King County reformats the independently prepared and audited financial statements of Harborview Medical Center (HMC) for presentation as a component unit in the King County Comprehensive Annual Financial Report (CAFR). In 2000 errors were made in the CAFR as described in the following table.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 12 - CONTINUED**

## STATEMENT OF REVENUES AND EXPENSES

	COMPONENT UNIT		COMPONENT UNIT
	HMC 2000 CAFR	Required Revisions to 2000 CAFR	HMC 2000 CAFR (Restated)*
TOTAL OPERATING REVENUES	\$ 339,052,798	\$	\$ 339,052,798
TOTAL OPERATING EXPENSES	333,650,886		333,650,886
OPERATING INCOME (LOSS)	5,401,912		5,401,912
NONOPERATING REVENUES			
Interest earnings	4,247,223	(649,871)	3,597,352
Restricted donations and interagency transfers	-	7,541,194	7,541,194
Miscellaneous	(751,783)		(751,783)
TOTAL NONOPERATING REVENUES	3,495,440	6,891,323	10,386,763
NONOPERATING EXPENSES			
Interest	441,918		441,918
Miscellaneous	5,382,333	(659,308)	4,723,025
TOTAL NONOPERATING EXPENSES	5,824,251	(659,308)	5,164,943
NET INCOME	3,073,101	7,550,631	10,623,732
FUND EQUITY			
Retained earnings, Beginning of Fiscal Year	327,924,700	(8,689,923)	319,234,777
Retained earnings, End of Fiscal Year	330,997,801	(1,139,292)	329,858,509
Contributions, End of Fiscal Year	7,541,194	1,139,292	8,680,486
FUND EQUITY - END OF FISCAL YEAR	\$ 338,538,995	\$ -0-	\$ 338,538,995

\* This presentation is consistent with HMC's independently prepared and audited June 30, 2000, financial statements.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 12 - CONTINUED****BALANCE SHEET**

	COMPONENT UNIT		COMPONENT UNIT
	HMC 2000 CAFR	Required Revisions to 2000 CAFR	HMC 2000 CAFR (Restated)*
TOTAL ASSETS AND OTHER DEBITS	<u>\$ 448,193,628</u>	<u>\$ -0-</u>	<u>\$ 448,193,628</u>
LIABILITIES, FUND EQUITY, AND OTHER CREDITS			
Total liabilities	<u>109,654,633</u>		<u>109,654,633</u>
Fund equity and other credits			
Contributions	<u>7,541,194</u>	<u>1,139,292</u>	<u>8,680,486</u>
Retained earnings			
Reserved	<u>29,728,685</u>		<u>29,728,685</u>
Unreserved	<u>301,269,116</u>	<u>(1,139,292)</u>	<u>300,129,824</u>
Total retained earning/fund balances	<u>330,997,801</u>		<u>329,858,509</u>
Total fund equity and other credits	<u>338,538,995</u>		<u>338,538,995</u>
TOTAL LIABILITIES, FUND EQUITY, AND OTHER CREDITS	<u>\$ 448,193,628</u>	<u>\$ -0-</u>	<u>\$ 448,193,628</u>

**STATEMENT OF CASH FLOWS**

## CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers/users	<u>\$ 332,211,621</u>	<u>\$ 7,541,194</u>	<u>\$ 339,752,815</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>39,770,318</u>	<u>7,541,194</u>	<u>47,311,512</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	<u>(24,679,188)</u>	<u>(7,541,194)</u>	<u>(32,220,382)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(26,046,577)</u>	<u>(7,541,194)</u>	<u>(33,587,771)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,239,007</u>	<u>-0-</u>	<u>3,239,007</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>16,962,748</u>		<u>16,962,748</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF FISCAL YEAR	<u>83,153,769</u>		<u>83,153,769</u>
CASH AND CASH EQUIVALENTS - END OF FISCAL YEAR	<u>\$ 100,116,517</u>	<u>\$ -0-</u>	<u>\$ 100,116,517</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	<u>\$ 5,401,912</u>	<u>\$</u>	<u>\$ 5,401,912</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Restricted donations in Special Purpose funds	<u>5,382,333</u>	<u>7,541,194</u>	<u>12,923,527</u>
TOTAL ADJUSTMENTS	<u>34,368,406</u>	<u>7,541,194</u>	<u>41,909,600</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 39,770,318</u>	<u>\$ 7,541,194</u>	<u>\$ 47,311,512</u>

\* This presentation is consistent with HMC's independently prepared and audited June 30, 2000, financial statements.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 13 - CONSTRUCTION COMMITMENTS AND OTHER MAJOR ACQUISITION PROJECTS**

Project commitment is defined as authorized and planned expenditures for the next fiscal year. These commitments, totaling \$955 million will be funded from both existing undesignated fund balances and future revenues.

**Proprietary Funds**

- Public Transportation Enterprise - \$141 million is committed to upgrade and expand the bus fleet, enhance park and ride facilities, expand maintenance facilities, and other improvements.
- Solid Waste Enterprise - \$50 million is committed to improve solid waste facilities and to ensure compliance with legal requirements.
- Water Quality Enterprise - \$322 million is committed to ensure the continued operation, reliability and compliance with regulatory standards of wastewater treatment facilities.
- Other enterprises - \$21 million is committed to construction and acquisition projects at the King County International Airport.

**Capital Projects Funds**

\$421 million is committed to the acquisition or development of capital improvements including new building construction, seismic upgrades, energy conservation, purchase of open space, road construction and widening, improvements within the surface water management program, repair and replacement of general government facilities, and cultural programs.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISES**

King County has eight enterprises that are intended to be self-supporting:

1. The Institutional Network (I-Net) Enterprise accounts for the resources used for the development and operations of the fiber optic-based network which provides broadband internet connectivity to agencies across the county.
2. The King County International Airport Enterprise accounts for the Boeing Field/King County International Airport operations and for all resources received and used for the acquisition and development of Airport capital improvements.
3. The Public Transportation Enterprise accounts for public transportation operations and for all resources received and used for the acquisition and development of public transportation capital improvements.
4. The Radio Communications Services Enterprise accounts for the resources used for the development of the regional emergency radio communications system and radio communications services operations.
5. The Sewer Utility Enterprise accounts for operations of certain King County sewerage services areas in accordance with the County Area Services Act. On January 1, 1986, the five County-operated sewer systems were transferred to nearby local sewer districts. The Sewer Utility Enterprise continues to collect the assessments levied and retire the debt outstanding as of the date of divestment.
6. The Solid Waste Enterprise accounts for the King County solid waste disposal facilities operations and for all resources received and used for the acquisition and development of solid waste capital improvements, landfill facilities, and equipment.
7. The Stadium Enterprise accounts for the King County stadium operations, and for all resources received and used for the acquisition and development of stadium capital improvements.
8. The Water Quality Enterprise accounts for water pollution abatement, sewage treatment and disposal operations, and for all resources received and used for the acquisition and development of water quality capital improvements.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 14 - CONTINUED**

SEGMENT INFORMATION  
KING COUNTY ENTERPRISE FUNDS

			KING COUNTY INTERNATIONAL	PUBLIC	RADIO	SEWER	SOLID		WATER
	<u>TOTAL</u>	<u>I-NET</u>	<u>AIRPORT</u>	<u>TRANSPORTATION</u>	<u>COMMUNICATIONS</u>	<u>UTILITY</u>	<u>WASTE</u>	<u>STADIUM</u>	<u>QUALITY</u>
Operating revenues	\$ 382,174,691	\$ 292,350	\$ 8,979,821	\$ 105,824,964	\$ 3,281,300	\$ -	\$ 76,722,333	\$ 44	\$ 187,073,879
Depreciation expense	165,692,479	80,454	1,120,568	67,971,235	1,682,690	-	8,757,205	-	86,080,327
Operating income (loss)	(296,663,932)	2,066	(1,096,327)	(315,489,447)	(798,601)	-	9,123,625	(325,357)	11,920,109
Operating grants	49,031,735	-	81,792	25,833,545	23,664	-	373,012	-	22,719,722
Capital grants	23,096,287	-	5,042,242	16,554,045	-	-	-	-	1,500,000
Operating transfers in	207,682	-	67,589	-	133,684	-	6,409	-	-
Operating transfers out	(588,206)	-	(132,696)	(240,046)	-	-	(140,057)	-	(75,407)
Tax revenues	287,844,161	-	-	287,844,161	-	-	-	-	-
Net income (loss)	20,150,263	1,128,425	4,921,305	21,565,398	(403,877)	11,451	12,510,097	(214,836)	(19,367,700)
Plant, property & equipment									
Increases	381,861,738	1,126,351	10,587,945	57,256,457	1,418,598	-	19,763,125	-	291,709,262
Decreases	(187,841,953)	-	(3,413,351)	(36,521,393)	(1,517,540)	-	(17,111,680)	-	(129,277,989)
Net working capital	37,895,190	82,528	5,455,066	89,384,086	1,053,151	-	11,503,253	1,085,766	(70,668,660)
Restricted assets	700,848,997	-	29,260,599	304,861,047	1,100,166	186,674	119,618,439 <sup>(a)</sup>	-	245,822,072
Total assets	3,522,508,696	1,234,683	78,911,450	1,361,347,273	17,109,460	186,674	229,802,271	2,509,840	1,831,407,045
Bonds & other long-term liabilities									
Payable from operating revenues	1,501,334,820	-	8,325,000	180,139,320	-	-	35,322,770	-	1,277,547,730
Payable from other sources	500	-	-	-	-	500	-	-	-
Total equity	1,609,883,688	1,128,425	65,776,004	1,099,366,275	16,717,383	186,174	89,470,064	2,505,294	334,734,069

(a) See the following page for Solid Waste restricted assets composition

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

**NOTE 14 - CONTINUED**

Solid Waste restricted assets include the following:

\$15,302,104	Solid Waste Capital Equipment Recovery Sub-fund – Established to support the equipment owned by the Solid Waste Division and to ensure that adequate reserves are available to replace equipment when it has reached the end of its useful life. Funding is from annual transfers from the Solid Waste Operating Fund.
43,001,310	Solid Waste Landfill Reserve Sub-fund – Established to provide for facility relocation, closure, post-closure maintenance and replacement costs at the Cedar Hills and Vashon landfills. Funding has consisted of a disposal fee rate factor, presently \$10.75 per ton.
1,829,895	Environmental Reserve Sub-fund – Established to provide for remediation costs related to closed and abandoned landfill sites which the King County Solid Waste Division owns, or has custodial responsibility for, and for costs related to inverse condemnation claims that result from King County solid waste activities.
25,352,799	Solid Waste Construction Sub-funds – Established in 1993 to provide for the acquisition and development of solid waste capital improvements. Funding sources include transfers from the operating fund and general obligation bond issues, which are accounted for in separate sub-funds.
34,132,331	Landfill Post-Closure Maintenance Sub-fund – Established to provide for post-closure maintenance costs at closed and custodial landfills. Funding has consisted of a disposal fee rate factor.
<u>\$119,618,439</u>	Total Solid Waste restricted assets.

**Solid Waste Landfill Closure and Post-Closure Care Costs**

State and federal laws and regulations require King County to place a final cover on its Cedar Hills and Vashon landfill sites when the County stops accepting waste at these sites. Performance of certain maintenance and monitoring functions are also required at the sites for 30 years after closure. Enumclaw, Hobart, Duvall and Cedar Falls landfills have been covered. Puyallup, Houghton, Bow Lake, First Northeast, and South Park are custodial landfills which were covered 30 or more years ago, beyond the aforementioned state and federal laws and regulations. Although closure and post-closure care costs will be paid only near or after the date that the landfills stop accepting waste, the County reports a portion of these costs as an operating expense in each period. The expense is based on landfill capacity used as of each balance sheet date. The \$90.5 million reported as landfill closure and post-closure care liability at December 31, 2001, represents the cumulative amount reported to date based on the percentage use of the landfills as follows:

<u>Landfill</u>	<u>Percent Filled</u>	<u>Estimated Liability (in millions)</u>	<u>Estimated Remaining Liability (in millions)</u>	<u>Estimated Year of Closure</u>
Cedar Hills	70%	\$ 51.3	\$ 32.1	2012
Vashon	100%	13.7		
Covered	100%	13.9		
Custodial	100%	11.6		

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 14 - CONTINUED**

The County will recognize the remaining estimated costs of closure and post-closure care as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in current dollars. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The County is in compliance with these requirements, and at December 31, 2001, cash and cash equivalents of \$23.9 million (Landfill Reserve Fund) and \$34.1 million (Landfill Post-Closure Maintenance Fund) are held for these purposes. These are reported as restricted assets on the balance sheet. The County expects future inflation cost will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or regulations), these costs may need to be covered by charges to future landfill users or from future tax revenue.

The County also established the Environmental Reserve Fund for future investigation and possible remediation of custodial landfills. Cash and cash equivalents total \$1.8 million in this fund. The related estimated liability for the custodial landfill costs is \$0.3 million. This estimate includes only those costs that are reasonable and quantifiable and for which schedules may be forecast. There is also additional contingent liability which may be incurred at the custodial landfills depending upon results of future monitoring data. This contingent liability is estimated at \$5.8 million.

**Component Unit – Harborview Medical Center Restricted Assets**

Harborview Medical Center restricted assets consists of the following:

\$ 35,617,852	HMC Construction Fund (a restricted fund) – Consists of monies from the 1976, 1988, 1993, and 2000 General Obligation Bond issues that are restricted for construction, improvements, and furnishing of the trauma center and other HMC buildings.
24,411,463	HMC Special Purpose Fund (a restricted fund) – Consists of restricted donations, gifts, and bequests from various sources for specific purposes.
24,144,825	Board-designated assets of HMC Operating Fund (a general fund) – Consists of resources designated for specific purposes, including \$16,787,525 for planned capital and service component; \$1,654,676 for trauma center equity; \$198,479 for commuter services; and \$3,959,431 in net fixed assets held for future use.
19,454,728	Board-designated assets of HMC Plant Fund (a general fund) – Consists of resources designated for building improvements, furnishings, and repair and replacement. This fund includes the liability for the 1993 General Obligation Bonds for HMC building construction and equipment acquisition.
<u>\$103,628,868</u>	Total HMC restricted assets.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 15 - LEGAL MATTERS/CONTINGENT LIABILITIES****Primary Government**

There is no litigation currently pending or probable of assertion against King County in which, to our knowledge, the likelihood of an unfavorable outcome with material damages (in excess of \$500,000) assessed against King County is probable, as explained in Paragraph 5.2 of the Commentary to the ABA Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information (February 1990) and Financial Accounting Standards Board Statement 5, *Accounting for Contingencies*.

The following litigation, or threatened litigation, may involve claims for material damages against King County for which the County is unable to provide an opinion as to the ultimate outcome or the amount of damages that may be found:

- A federal declaratory judgment action, in which King County is co-defendant, filed by the builders risk insurer for the Alki Transfer/CSO project contract. This is a related action to the lawsuit filed by a subcontractor seeking \$1 million in claims for adjustments to the contract sums; the County prevailed in both summary judgment and appeal.
- A \$500,000 claim for breach of contract and quantum merit filed by the general contractor arising out of a construction contract under the Lake City Tunnel Regulator Station Odor Control System Upgrade project.
- A class action lawsuit alleging violation of County ordinances and State law regarding plaintiffs' salary and employment with the County. Plaintiffs seek remuneration in the form of back pay, prejudgment interest, double damages, and attorneys' fees on behalf of an uncertified class. The higher courts have so far denied King County's motions for summary dismissal of plaintiffs' claims and for discretionary review.
- A pending appeal by a group of part-time transit operators following their exclusion from the Logan vs. King County settlement agreement; and a second lawsuit by the same group alleging they were denied certain employment benefits and are seeking back pay, prejudgment interest, double damages, and attorneys' fees.
- A lawsuit filed against King County and certain contractors for property damage allegedly caused by the construction of the Alki Transfer/CSO/Southern Transfer/Interurban project. The complaint is for an indeterminate amount, although prior to the suit the plaintiff did file a claim against the County for \$285,363.
- A \$2.2 million claim against King County by the primary contractor of the South Interceptor Parallel – Phase III Project, in the form of requests for change orders, due to incidental damages that arose out of the County's sewer project. The County has, in turn, presented a claim for \$1.9 million to the prime contractor's builders risk insurer.
- A lawsuit filed by three mental health providers against King County, Washington State, and a contractor alleging that the defendants illegally retired about 150 mental health clients.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 15 – CONTINUED**

**Contingent Liabilities**

King County has entered into several contingent loan agreements totaling \$53,430,000 with the King County Housing Authority (KCHA) and other owners/developers of affordable housing. The County has provided credit support in the form of reserve guarantees for certain bonds issued by KCHA. All projects are currently self-supporting and the County has made no loans pursuant to these agreements.

**Component Unit - Harborview Medical Center**

Harborview Medical Center (HMC) is involved in litigation arising in the course of business. It is HMC management's opinion, however, that these matters will be resolved without material adverse effect to HMC's future financial position or results of operations.

The current regulatory environment in the healthcare industry is one of increasing governmental activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers that could result in the imposition of significant fines and penalties, including significant repayments of patient services previously billed. HMC management believes that it complies with the fraud and abuse regulations, as well as other laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation and regulatory actions unknown or unasserted at this time.

HMC is operated by the University of Washington under a management and operations contract with King County. In this contract, the University of Washington agrees to defend, indemnify and save harmless King County, its elected and appointed officials, employees, and agents from and against any damage, cost, claim, or liability arising out of the negligent acts or omissions of the University, its employees or agents, or arising out of the activities or operations of the medical center.